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THE MICHIGAN FINANCIAL INSTITUTIONS BUREAU

THE BUREAU'S HOME PAGE ADDRESS IS:

<http://www.cis.state.mi.us/fib/>



INDEX TO THE BUREAU WEB PAGE

WHAT'S NEW

This page is continuously updated with insight as to what has been recently added to the FIB home page. Usually the past three months of updates are listed.

WHO WE ARE

This page contains our Mission Statement, Goals Statement, our Guiding Principles, Bureau Functions by division, a graphical Organizational Chart, a link to our "How to Contact Us" page, and links to our staff listings. This page was added in January 1999.

WHO WE REGULATE

Added as a separate page in January 1999, this contains links to our listings of State of Michigan Regulated Depository and Non-Depository Institutions, including:

- Banks and Savings Banks
- Credit Unions
- Consumer Financial Services Licensees
- First Mortgage Licensees
- First Mortgage Registrants
- Regulatory Loan Licensees
- Sale of Check Licensees
- Secondary Mortgage Licensees
- Secondary Mortgage Registrants

HOW TO CONTACT US

Office hours, our main office location — including maps, mailing address, main telephone and fax numbers, information on how to file a Freedom of Information Act (FOIA) request or file a complaint with us, and links to our staff listings.

FIB'S OWN Y2K PAGE

A link to the Michigan Department of Management and Budget Year 2000 Project page, FIB Divisions' Progress Reports/Plans, and a link to the FIB Y2K links page. This page was added in January 1999.

FIB FORMS

Almost every form needed by you, our external customers, can be found on this page. The forms are listed by functional area.

STATUTES, RULES, AND REGULATIONS

Listed by division. Contains acts, rules, some orders, bulletins, and bylaws.

PUBLICATIONS

Links to indexes for press releases, position statements, regulated institutions listings, and reports.

FREQUENTLY ASKED QUESTIONS

Typically-asked questions and answers about Bank and Trust, Consumer Finance, Credit Union, and some miscellaneous areas, as well.

LINKS TO RELATED SITES

Consumer information, counterpart state and federal regulatory agencies, our Kid's Page, other Michigan state government sites of interest, related legislation/information not administered by the Bureau, trade and professional sites, and Year 2000 links.

MISSION STATEMENT

The mission of the Financial Institutions Bureau (Bureau) is to maintain a regulatory climate conducive to healthy, competitive, and responsible financial institutions and, thereby, instill public confidence in these institutions. To fulfill this mission, the Bureau has four major goals:

1. To ensure that financial institutions operate safely, soundly, and in compliance with applicable law.
2. To ensure that financial services are available to meet the needs of Michigan citizens.
3. To provide a full range of competitive opportunities to financial institutions.
4. To encourage financial institutions to advance prudent economic development.

These goals are achieved through supervisory and regulatory processes, by developing a highly efficient and effective staff, and by developing and maintaining open lines of communication with consumers, financial institutions, governmental agencies, and others.

The Bureau operates under five guiding principles:

1. Dedication to excellence.
2. Achieving results through teamwork.
3. Maintaining a commitment to integrity.
4. Maintaining a focus on our mission and goals.
5. Commitment to sound management practices.



John Engler
Governor



**CONSUMER
& INDUSTRY
SERVICES**

Kathleen M. Wilbur
Director
Department of Consumer and
Industry Services



Patrick M. McQueen
Commissioner
Financial Institutions Bureau

COMMISSIONER'S COMMENTS



Patrick M. McQueen

Patrick M. McQueen
Commissioner

Another fast-moving year has passed with many important events in the financial services industry and at the Financial Institutions Bureau. I am pleased to report that Michigan's financial services industry is strong and successful. Our state's robust economy has contributed much to the overall soundness of its financial institutions, while the underpinning of this strong economy has been the very good health of our financial institutions.

Michigan is a national giant in terms of state-chartered commercial banks and credit unions. We rank 4th in the nation in state-chartered bank assets at \$99.6 billion with 35,727 full-time bank jobs. Michigan is number 2 in the country in credit union assets, which totaled \$12.1 billion at year end 1998 and we have the third largest number of state-chartered credit unions, now totaling 315, excluding Central Corporate Credit Union. Michigan is clearly a leader in the delivery of financial services.

This, the 110th annual report, will review the substantial work of the Bureau's four regulatory divisions, highlight the activities of our two support divisions, and discuss trends we see in the financial industries we supervise.

Some highlights of Bureau activity during 1998 include:

- Regulatory fees paid by banks and credit unions were lowered 4 percent and 2.8 percent, respectively. FIB activities are funded 100 percent by regulatory fees and each of our programs is self-funded.
- Both the Bureau's Bank & Trust Division and Credit Union Division received reaccreditation from their national professional associations.
- The Bureau completed its reorganization, prompted by early retirements:
 - FIB staff was reduced by 6 percent at a time when the volume of work expanded, nearly doubling in the mortgage-licensing program. The Bureau currently has 122 employees, 11 less than in 1993.
 - We have achieved a "flatter" organization to enhance efficiency and to streamline delivery of services to the constituencies we serve.
 - With the retirement of Russell S. Kropschot, Gary K. Mielock was appointed Chief Deputy Commissioner, and Donald P. Mann, Roger W. Little, and Peggy L. Bryson were appointed Deputy Commissioners.
- The Bureau completed its annual strategic plan with improvement plans developed for each division.

- The Bureau continues to use technology to provide improved service to consumers, and more effective and efficient regulation of the financial industry. Our examiners can access federal regulatory systems, implement computerized examinations, and have dial-in access to the FIB network that permits them to file examination documents electronically.
- There was significant expansion and improvement to the FIB Internet Site. Our Web Site makes available, at the click of a mouse, applicable statutes, rules, regulations, bulletins, interpretative letters for each regulated industry, application and complaint forms, and news and consumer information.

I hope you are reading this report via the Internet...it is our intention next year to save thousands of dollars by publishing this report almost exclusively in electronic form. Another of our goals for the coming year is to make our Web Site more interactive so that forms can be filed via the Internet, and consumer and industry inquiries can be asked and answered electronically.

- We commenced an independent study of the mortgage application process to identify ways to streamline and reduce burden to Michigan businesses. Implementation of the new process begins in late spring, 1999.
- OmniBank: The Bureau successfully worked through the first state-chartered bank closure in Michigan since 1988. After months of working to help salvage the bank, it became apparent that the bank's failure was unavoidable. To help ensure the economic well-being of the communities served by OmniBank, it was important that a sound bank be positioned to take over the failed bank.

In an innovative move, the Bureau encouraged a group of the 8 largest financial institutions in the state to commit their time and money

to aid in structuring a successful bid package acceptable to the FDIC. With this assistance, ShoreBank, Detroit, assumed all the deposit liabilities of the failed bank...including millions of dollars in public funds from the cities of Detroit, Highland Park, and River Rouge.

All deposits of OmniBank were protected, and the state gained a highly respected new bank in the Detroit area.

- An unprecedented 12 new banks were approved by the Bureau in 1998. Included in that number was Detroit Commerce Bank, the first new state-chartered bank in the city of Detroit in 29 years.
- The consolidation of 6 banks and 145 branches, located in four states of the Midwest, was accomplished in the latter part of 1998. CNB Bancshares of Indiana had 1 bank in Michigan (Pinnacle Bank, St. Joseph). Following approval of the consolidation, the new entity became the fourth largest state-chartered bank in Michigan.
- Legislation: This was a quiet legislative year for the financial services industry.
 - The Bureau successfully countered legislation that would have prohibited financial institutions from imposing surcharges on ATM transactions, or would have subjected them to duplicative disclosure requirements.
 - The Bureau drafted legislation which resulted in PA 371 and 372, which allows the Commissioner to exempt nonprofit mortgage lenders from licensure under the Mortgage Brokers, Lenders, and Servicers Licensing Act.
 - The Bureau drafted legislation that modernizes the entire Michigan Banking Code of 1969. It is anticipated that Senator Joanne Emmons will introduce the

proposed legislation during the 1999 legislative session.

Promoting Year 2000 readiness for the institutions we regulate continues to be one of the highest priorities of the Bureau. Each of our line divisions, in cooperation with their federal counterparts, has been working with financial institutions to help ensure that Y2K plans are in place. The five key phases of an effective Year 2000 program for financial institutions include Awareness, Assessment, Renovation, Validation (testing), and Implementation. By June 30, 1999, banks and credit unions should be finished with all testing, validation, and implementation of mission critical systems.

Based on the extensive reviews we have made, I want to emphasize that Michigan state-chartered banks and credit unions are adequately preparing for the millennium date change. More detail on the regulatory programs for Year 2000 readiness is found in each division section of this report.

Michigan's 315 state-chartered credit unions recorded another impressive growth year in 1998. Assets rose over \$1.3 billion, a growth rate of 12 percent, ending the year with \$12.1 billion in total assets. Share deposits grew 12.5 percent in 1998. Loan demand in Michigan has also remained strong and credit unions have been accommodating. Loans grew 7.3 percent during the year, bringing the loan to deposit ratio to a level of 69.9 percent.

Our state-chartered banks also benefited greatly from, and contributed to, Michigan's healthy economy. In 1998, bank assets increased over \$12.3 billion, a 14.2 percent increase from last year, and now totaling over \$99.6 billion.

Lending by Michigan banks also continues to be strong due to continuing high loan demand. The balance sheets show an increase of 12.8 percent in loans during 1998, generating nearly \$73 billion

in loans outstanding. The loan to deposit ratio at year-end stood at 98.7 percent.

The Michigan state savings bank charter is relatively new: the legislation establishing the charter was enacted in 1996. Subsequent to that date, the Bureau has approved five state savings bank charters. The state savings bank charter is an attractive alternative for many institutions, and we expect additional charter conversion applications in the coming year.

State-chartered savings banks posted total consolidated assets of \$2.9 billion, representing a 6.3 percent increase over the previous year. Return on assets compare very favorably with national averages: state-chartered savings banks reported an aggregate net income of \$31 million for 1998, representing a 10.7 percent increase over year end 1997 totals. The aggregate return on average assets for savings banks was 1.11 percent.

Michigan has, like the rest of the nation, experienced considerable consolidation and merger activity in the banking industry. But at the same time, and I believe as a result of the consolidation activity and the strong economy, the number of new state-charter applications has risen substantially. During 1998, the Bureau chartered 12 new banks, and new applications continue to arrive at our corporate section at a steady pace. The availability of capital, talented bankers, and market demand for community banks contribute to this growth.

The consumer finance licensees, particularly in the mortgage broker/lender area, have grown an incredible 39 percent in the two-year period, 1997 and 1998. The strong economy, low interest rates, and the relative ease of entry into the market contributed to this explosive growth.

The rapid growth in this industry is not without cost. The Consumer Finance Licensing and Enforcement Division conducted important

enforcement actions during the year, resulting in license revocations as well as license denials. Additionally, the division processed 550 written consumer complaints filed against licensees, a 70 percent increase over 1997.

The most significant trend in the financial services industry continues to be the blurring of lines between deliverers of the services. Insurance companies offer banking products, banks sell insurance, mortgage companies apply for thrift charters...the examples are endless. Geographic boundaries have eroded; technology permits providers in Alaska or Rhode Island (or any other state) to offer services to residents of any state, without the need for brick and mortar.

A major vehicle for this blurring of lines has been the re-emergence of the federal thrift charter. The thrift charter has become a popular vehicle for scores of businesses to own a bank and combine banking with insurance, securities, and other commercial activities. For example, in Michigan, Jackson National Life has acquired a federal thrift, and AAA has applied for a thrift charter. State Farm opened its bank in Illinois in March of 1999, with near-term plans to offer traditional banking products through their insurance agent's offices across the nation.

HR 10 (Financial Services Act) which would modernize the financial services industry, still has not passed Congress. The legislation is again on the Senate Banking Committee's agenda in 1999, but swift passage is unlikely. This legislation is needed: modernization of the industry is taking place, driven by the market, and in some cases accommodated by the regulators. As ABA President R. Scott Jones put it, "In the time that Congress was debating what a bank should be, State Farm became one."

The credit union movement is very healthy...and growing. But I believe credit unions may be overly

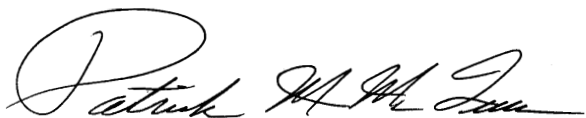
focused on their victory on the field of membership issue. HR 1151, which confirmed an expanded field of membership for nationally chartered credit unions, was perhaps a Pyrrhic victory...and no victory at all for state-chartered credit unions. The Congressional "fix" to the Supreme Court's earlier ruling on credit union field of membership didn't change field of membership rules for state charters, but did saddle them with more restrictive business loan requirements and PCA's.

The trends are clear. Michigan's consumers are demanding faster and easier access to services, and they are demanding more diverse services from each provider. Each of the differing financial service providers highlighted in this report serves a valued purpose. It is critical that consumers have the right and the option to form relationships with the financial institution of their choice.

The financial services industry is undergoing dramatic change. Because of heightened competition, technology, and economic factors, our regulated entities need to sharpen their strategic plan focus, continue to invest in technology, and institute value-added services to establish long-lasting customer relations. Competition will continue to be fierce. Innovation and creativity in providing what customers want and need will distinguish the winners from the losers.

The Financial Institutions Bureau will, as it has for the past 110 years, work to ensure that financial institutions operate safely, soundly, and in compliance with applicable law. We will work to ensure that a variety of financial services are available to meet the needs of Michigan's citizens. And we will work to provide a full range of competitive opportunities to financial institutions, and to keep pace with the changes in the financial services industry.

I am proud of the high level of service that our staff provides. We will continue to further improve our service to the people of the state of Michigan by providing the best, highest quality, state-of-the-art supervision of the state financial institutions system. We look forward to working with you in 1999.

A handwritten signature in black ink, reading "Patrick M. McQueen". The signature is fluid and cursive, with the first name "Patrick" being the most prominent.

Patrick M. McQueen
Commissioner

TRADITION



Alonzo L. Wilson
Commissioner, 1957-1960

ALONZO L. WILSON (1957 – 1960)

Alonzo L. Wilson was appointed Commissioner of the State Banking Department February 15, 1957, by Governor G. Mennen Williams and resigned June 15, 1960.

Alonzo Wilson was born in 1890 on a farm near Scottville, Michigan, and had 48 years experience in the banking profession, starting as a clerk in a bank in Scottville in 1912. After service in the Army during World War I, he rejoined the bank but resigned in 1921 to work as an assistant state bank examiner with the State Banking Department.

A promotion to examiner followed and he continued in this capacity until 1927, when he left to become an examiner for the Federal Reserve Bank of Chicago. He was then given the title of acting assistant federal reserve agent. At this time the Federal Reserve Bank of Chicago was in the process of changing the size of the currency and Mr. Wilson was in charge of this change for the Detroit Branch of the Federal Reserve Bank of Chicago.

In 1929, Mr. Wilson took a position with a bank efficiency engineering company and made surveys for the Comptroller of the Currency and banks in many large cities. Because of this connection, he was then selected to reorganize a large bank in Warsaw, Poland, and spent a year in that position before he returned to the United States in 1932.

During 1932, he was asked to take charge of a national bank in Aurora, Illinois and to study its problems. Irregularities of a former officer were found and the bank was closed. Mr. Wilson remained as receiver until the bank holiday when he returned to the Federal Reserve Bank of Chicago and assisted in the reorganization of banks in Michigan.

He was best known for his work with the federal government in reorganizing Michigan's bank setup after the national bank holiday which began in Detroit with the collapse of the Guardian Trust Company.

Wilson took a temporary position with the Federal Reserve Board in Washington, D.C. on loan from the Federal Reserve Bank of Chicago in 1933-34. In 1943 he was appointed chief examiner at the Detroit Branch of the Federal Reserve Bank of Chicago. He took a leave of absence in 1946 to serve as a finance officer with the War Department in Berlin,

Germany and resumed his duties in Detroit when he returned.

In 1950, he resigned to become president of the Traverse City State Bank and remained there for the next seven years until appointed Commissioner.

At year-end 1957, Michigan had 318 state banks, 2 trust companies, 2 industrial banks and 1 private bank, with 332 examinations of banks completed. In addition, the department also supervised 566 credit unions and 472 small loan companies.

Commissioner Wilson stated "My one regret about the new job as state banking commissioner is that I have to spend most of my time in Lansing. I'll only see my family on weekends." This also left him with little time for his two hobbies, knitting and his 14-acre vegetable garden.

"I don't think anyone can do much about what's going to happen tomorrow. What you have to do is think farther ahead than that, maybe five or six years and make plans for the future," he said "if I can get a couple of pieces of legislation passed that will help banking in times yet to come then I'll think I've done a good job, and if the job gets to be too much for me — why, I'll just hand in my resignation and come back to the farm — and my family." Alonzo L. Wilson passed away October 14, 1961.

COMMISSIONERS

Theodore C. Sherwood	1889 – 1896
Daniel B. Ainger	1896 – 1897
Josiah E. Just	1897 – 1898
George L. Maltz	1898 – 1903
George W. Moore	1903 – 1907
Henry M. Zimmerman	1907 – 1911
Edward H. Doyle	1911 – 1915
Frank W. Merrick	1915 - 1921
Hugh A. McPherson	1921 – 1927
Rudolph E. Reichert	1927 – 1936
Howard C. Lawrence	1936 – 1937
Charles T. Fisher, Jr.	1937 – 1938
Alvan Macauley, Jr.	1938 – 1939
Frederick B. Elliott, Jr.	1939 – 1941
Maurice C. Eveland	1941 – 1942
E. William Nelson	1943 – 1948
Maurice C. Eveland	1949 – 1956
Alonzo L. Wilson	1957 – 1960
Jerome J. Zielinski	1960 – 1961
Charles D. Slay	1961 – 1968
Robert P. Briggs	1968 – 1973
Richard J. Francis	1973 – 1980
Martha R. Seger	1981 – 1982
Eugene W. Kuthy	1983 – 1990
Russell S. Kropschot (Acting)	1991 – 1993
Patrick M. McQueen	1993 to date

SIGNIFICANT DEVELOPMENTS

As discussed in Commissioner McQueen's comments in the Bureau's 1997 Annual Report, for the first time since 1988, a state-chartered bank failed. The bank, OmniBank, headquartered in River Rouge, was declared insolvent on April 9, 1998. Importantly, there were no losses to the institution's depositors (See Bank and Trust Division, page 24).

LEGISLATIVE DEVELOPMENTS

STATE LEGISLATION ENACTED

1998 Public Act No. 371 (effective October 20, 1998) amends the Mortgage Brokers, Lenders and Servicers Licensing Act to allow the Commissioner to exempt from licensure or registration requirements a nonprofit corporation that serves limited geographic areas, does not compete with traditional conforming mortgage lenders, demonstrates its programs have the support of a local government housing agency, and administers pools of funds belonging to depository institutions or obtains its funds from the federal government, MSHDA, the Local Initiative Support Corporation, religious or charitable organizations, or other nonprofit organizations. The amendatory act also exempts nonprofit corporations, which make, broker, or service mortgage loans in connection with a neighborhood housing program assisted pursuant to the Neighborhood Reinvestment Corporation Act.

1998 Public Act No. 372 (effective October 20, 1998) amends the Secondary Mortgage Loan Act to exempt nonprofit corporations that make or service secondary mortgage loans only in connection with mortgages made under the program described in 1998 Public Act No. 371, if the Commissioner has determined that the nonprofit corporation is exempt from the Mortgage Brokers, Lenders and Servicers Licensing Act. The amendatory act also exempts nonprofit corporations, which make, broker, or service secondary mortgage loans made under a neighborhood housing program assisted pursuant to the Neighborhood Reinvestment Corporation Act.

1998 Public Act No. 455 (effective December 30, 1998) amends the Vehicle Code by prohibiting automobile brokering except by licensed automobile dealers, i.e., those licensed as auction dealers.

1998 Public Act No. 456 (effective December 30, 1998) amends the Automobile Dealers Franchise Act by prohibiting automobile manufacturers from the following: requiring new car dealers to pay for manufacturers' refunds or rebates, engaging in "arbitrary and capricious" vehicle allocation, requiring certain expensive "essential" service tools

without a good faith estimate of the number of vehicles to be allocated to the dealer, and from preventing a change in the executive management of a dealer unless the change would result in management by someone who was “not of good moral character” or who did not meet other standards.

1998 Public Act No. 410 (effective December 21, 1998) amends the Insurance Code of 1956 to exempt companies issuing private mortgage insurance policies from the following requirements: the insurer refund the excess of paid premiums above the pro rata rate upon the cancellation of the policy and the minimum earned premium on a policy not be less than the greater of the pro rata premium for the expired time or \$25.

FEDERAL LEGISLATION

FINANCIAL MODERNIZATION

The most widely publicized financial services issue Congress undertook to resolve in the 1997-98 session ultimately was not enacted. HR 10, which would have repealed Glass-Steagall Act provisions separating commercial from investment banking, passed the House by the narrowest of margins (214-213) on May 13, 1998, but stalled late in the year in the Senate Banking Committee over disputes on the application of the Community Reinvestment Act to uninsured wholesale financial institutions. A CRA exemption targeted at small banks also killed Rep. Marge Roukema’s regulatory burden relief bill, HR 4364.

FEDERAL EXAMINATION FEES ON STATE-CHARTERED BANKS AND HOLDING COMPANIES

At the urging of the Conference of State Bank Supervisors and bank trade associations Congress rejected another Presidential budget

recommendation that would require the FDIC and the Federal Reserve to assess fees for their examinations of state-chartered banks and holding companies. Both the FDIC and the Federal Reserve have been authorized to charge for examinations since 1991, but have chosen not to impose the charges. Currently, the fee structure for state- and federally chartered banks is identical: both pay the primary regulator for examinations and pay deposit insurance premiums to the FDIC. Congress has rejected such fees on five previous occasions.

PL 105-216 (signed July 29, 1998) requires lenders to notify borrowers of their right to request cancellation of private mortgage insurance (PMI) when equity in a home reaches 20%, and to automatically cancel PMI when equity reaches 22% of the lower of the original purchase price or the appraised value at closing — if the mortgage payments are current. Under the measure, high-risk borrowers can be required to keep PMI coverage until their equity reaches 50%. Loans carrying lender-paid mortgage insurance will trigger a set of disclosures that borrowers do not have a right to cancel this insurance.

The federal act, by its terms, preempts a state law on the subject unless that the law was enacted before July 29, 2000 and the state had a PMI protection law as of January 2, 1998. For states with such laws, only the portions that are inconsistent with the new federal law would be preempted.

PL 105-219 (signed August 7, 1998), the Credit Union Membership Access Act (CUMAA) overturned a February 25, 1998 Supreme Court decision requiring members of credit unions to share a single common bond. The CUMAA permits a credit union to serve unrelated companies or other groups that have fewer than 3,000 people. In exchange for gaining this authority to offer expanded access, credit unions

had to accept tighter restrictions on membership and lending and tougher safety and soundness regulations. To implement the 100-page act will require the NCUA to issue many regulations, which may be controversial.

BUREAU ISSUANCES

In 1998 the Bureau issued several position statements and industry bulletins. The position statements and bulletins are available at the Bureau's web site: www.cis.state.mi.us/fib. The first mortgage bulletin, issued on November 12, 1998, addressed the "right of first refusal to provide additional financing," a contractual right to prevent a borrower from refinancing a mortgage without giving the current lender the opportunity to provide the refinancing on substantially similar terms and conditions. The Bureau concluded that it is unlawful in the State of Michigan for a licensee or registrant under the Mortgage Brokers, Lenders and Servicers Licensing Act to use a document purporting to grant to the licensee or registrant the right of first refusal.

The second mortgage bulletin, issued on November 16, 1998, dealt with the legal status of mortgage prepayment penalty restrictions found in the Michigan Usury Statute in light of two federal laws — the Depository Institutions Deregulation and Monetary Control Act of 1980 (DIDMCA) and the Alternative Mortgage Transaction Parity Act of 1982 ("Parity Act"). With regard to DIDMCA, lenders making loans secured by a first lien on residential property, except for certain alternative mortgage transactions, are barred from charging Michigan consumers prepayment fees outside of those allowed by state law. The limitations on prepayment fees found in the state Usury Statute are preempted by the Parity Act if the lender is a "housing creditor" and the extension of credit is made in compliance with the Parity Act and other applicable regulations.

On December 9, 1998, the Bureau issued a position statement on whether Guaranteed Automobile Protection (GAP) contracts can be financed under the Motor Vehicle Sales Finance Act (act). The Bureau reaffirmed its long-standing position that the cost of a GAP contract cannot be added to the principal amount financed under the act unless the contract is a contract of insurance approved by the Insurance Bureau.

In another position statement issued on March 25, 1998 in response to the recent U. S. Supreme Court ruling in *National Credit Union Administration v. First National Bank & Trust, et al.*, the Bureau emphasized that the decision does not apply to Michigan state-chartered credit unions. The statement noted that the court's ruling is consistent with the Bureau's interpretation of the Michigan Credit Union Act field of membership provisions.

On December 18, 1999, the Bureau issued a letter stating that a national bank that makes mortgage loans to Michigan residents, but which does not maintain a main office, branch office, or service center in Michigan, is not a credit granting institution under the Mortgage Anti-Redlining Act (Act). For purposes of the Act, however, branch office or service center would include a Michigan-based mortgage broker under the control of an out-of-state mortgage lender.

FEDERAL ISSUANCES

FEDERAL RESERVE ADOPTS FINAL RULE REVISING REG. H

The Federal Reserve announced the adoption of a final regulation to revise Regulation H, defining requirements for state-chartered bank membership in the Federal Reserve System. It also established minimum levels for the ratio of capital-to-assets to be maintained by state member banks. The amended regulation reduces the regulatory burden on state member banks by

liberalizing the criteria under which Fed membership is granted and providing a definition of branch that is consistent with that of the Office of the Comptroller. Specifically, branch now includes temporary, seasonal, or mobile facilities but excludes from the definition loan originating facilities in which loan proceeds are not disbursed, ATMs, and remote service units. The Federal Reserve also rescinded Regulation P, regulating bank security procedures, which the revisions to Reg. H made unnecessary. The final rule took effect October 1, 1998.

FDIC STREAMLINES APPLICATION PROCEDURES

In August 1998, the FDIC Board finalized one of its regulatory relief proposals by simplifying the application procedures and consolidating into a single rule the procedures previously found in different parts of the regulation. Most significantly, applications filed by well-managed and well-capitalized institutions will receive expedited processing. It is estimated that 90% of insured banks will be eligible for expedited processing.

ANTI-LAUNDERING PROPOSAL

The 'know-your-customer' proposal, released in early December of 1998 and intended to discourage money laundering, generated many negative comments from bankers and privacy advocates: by year-end, the Federal Reserve had received nearly 350 letters, the FDIC (owing to its acceptance of comments filed by e-mail) more than 6,600, and the OCC about 425 letters. Critics of the proposal charge that it would violate customers' civil liberties, turn bankers into police officers, and would be costly to implement. Regulators countered that the proposal is not really new (that banks already have policies in place to identify unusual activity) and it was intended to provide flexibility to the bank.

THRIFT BUSINESS LENDING RULE

New government regulations permit federal thrifts to lend twice as much (in aggregate) to commercial borrowers. Under the new rules, a federal thrift may lend up to 20% of its assets to commercial customers but half of such loans must be made to small businesses (defined as loans not in excess of \$1 million). Also, the new regulations permit all education, small business, and credit card loans to count in meeting the qualified thrift lender test.

GUIDELINES ON THE USE OF TRADE NAMES

Federal banking agencies advised their respective institutions to adopt procedures intended to help customers recognize that different facilities of an institution, including an Internet site, are not separately insured merely because they operate under different names. The guidelines set forth in an Interagency Statement on Branch Names recommend:

- clearly and conspicuously disclosing in signs, advertising, and related materials that the facility is a branch of the institution;
- using the legal name of the institution for legal documents, CDs, signature cards, loan agreements, account statements, and similar documents;
- educating the institution's staff about the possibility of customer confusion over deposit insurance; and
- requesting depositors opening new accounts to sign a statement acknowledging that the institution informed them that the facility is part of the institution and deposits at each are not separately insured.

There are no federal laws or regulations which require that branches or Internet sites operate under a single name. The guidelines took effect July 1, 1998.

SEC INTERPRETIVE LETTER ON Y2K DISCLOSURES

The Securities and Exchange Commission has published guidance for publicly traded companies (including financial institutions), investment advisors, investment companies, and municipal securities issuers on their disclosure obligations for Y2K. The interpretive letter provides guidance to help companies to determine which issues they should disclose in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" part of their disclosures. Under the directive, if a company determines that it has a Y2K disclosure obligation, it must address four categories of information: the company's state of readiness, costs to address its Y2K problems, its Y2K risks, and its contingency plans. The interpretive letter warns companies that any materially false and misleading statements or omissions will trigger the anti-fraud provisions of the federal securities laws. The interpretive letter took effect August 4, 1998.

FDIC Y2K CONSUMER BROCHURE

The FDIC has published a consumer brochure, in English and Spanish, on Y2K. Working with trade associations, the FDIC has provided institutions with 3.5 million copies of this brochure and it is available at the FDIC web site (see www.FDIC.gov).

ADVISORY ON "PRETEXT PHONE CALLING"

After working with the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the Federal Reserve Board, the Federal Bureau of Investigation, the Secret Service, and the Internal Revenue Service, the Office of the Comptroller of the Currency issued an advisory letter on August 20, 1998, on "pretext phone calling." Pretext phone calling is a way in which organizations and individuals calling themselves "account

information brokers" call a financial institution pretending to be a customer in order to induce an employee of the institution to provide account information. The account information broker, in turn, sells the information to third parties to use in lawsuits or to identity thieves who may use the information for fraudulent purposes.

The advisory letter noted that using fraudulent practices to obtain customer account information may violate state and federal deceptive practices laws and federal wire fraud laws.

To ensure that national banks do not improperly disclose customer information, the letter recommends that they develop policies and procedures on financial information privacy. The policies and procedures should address such issues as

- the release of information over the telephone;
- the use of a caller identification service or ask the caller for the number from which he or she is calling;
- conduct of unscheduled test pretext phone calls to bank departments in order to evaluate the institution's performance;
- employee training about the importance of protecting personal account information; and
- prompt reporting of suspected illegal attempts to obtain customer information.

FDIC OPINION ON INTEREST RATE EXPORTATION

On May 13, 1998, the FDIC General Counsel issued an opinion giving multi-state state-chartered banks flexibility to export interest rates from virtually any state. This authority provides state banks parity with national banks.

LITIGATION

STATE — TONYA L. KRAUSE AND LAWRENCE PHELAN ET AL. V. THE HUNTINGTON NATIONAL BANK

On July 23, 1998, Kent County Circuit Court Judge Paul J. Sullivan granted defendant Huntington National Bank's motion for Summary Disposition in a case (Tonya L. Krause and Lawrence Phelan v. The Huntington National Bank) alleging that the bank engaged in the unauthorized practice of law by charging mortgage borrowers a fee for document preparation. Judge Sullivan ruled that a non-lawyer party (bank) is not barred from representing itself, i.e., the prohibition against practicing law applies only to the practice of law for persons other than itself. The judge reasoned that the bank preparing the documents (adjustable rate note and mortgage) relied on them to protect its security. The case has not been appealed.

FEDERAL — PATRICK M. MCQUEEN V. EUGENE A. LUDWIG

As reported in detail in the Bureau's 1997 annual report, the Commissioner brought an action challenging a decision of the Comptroller of the Currency on three applications of Society Bank, Michigan, Ann Arbor and Society National Bank, Indiana, South Bend. The Commissioner filed suit in U.S. District Court for the Western District of Michigan, Southern Division arguing that the action of the Comptroller violated the National Bank Act.

The Court declined to set aside the January 5, 1996 decision based on the Comptroller's conclusion that the converting bank could designate an existing branch as the main office of the converted national bank. The Bureau has filed an appeal of the Court's decision with the U.S.

Court of Appeals for the Sixth Circuit in Cincinnati. The oral argument was held in September 1998 and the Bureau is awaiting a decision.

PLANS AND OBJECTIVES



FIB Commissioner Patrick M. McQueen and Deputy Commissioners.

LEGISLATIVE OBJECTIVES

Changes are needed to modernize the Michigan Banking Code of 1969 to accommodate the evolution of financial institutions' products, structures, and technology in the past two decades and to carry the industry into the next millenium. At year-end 1998, the Bureau was working with the banking industry to further refine the proposal and hopes that the bill will be introduced early in 1999.

The Bureau hopes the Legislature will take up in the spring of 1999 a joint FIB/industry proposal to modernize the Consumer Financial Services Act (CFSA). Recent changes in the Mortgage Brokers, Lenders and Servicers Licensing Act (MBLSLA) and the Secondary Mortgage Loan Act (SMLA) to eliminate branch office licensing and restructure regulatory fees necessitate comparable reform of the CFSA whose licensees compete in the mortgage business. The proposal contains new supervisory tools.

The Bureau has revoked the licenses of several firms that have willfully and repeatedly violated state laws and pose a threat to the public welfare, only to find later that the individuals responsible for the problems are employed by other mortgage companies. The Bureau will recommend amending the CFSA, the MBLSLA, the SMLA, and the Regulatory Loan Act of 1963 to allow the Commissioner to bar persons who commit serious violations of law from being involved in any in these businesses.

A 1998 amendment to the Home Solicitation Sales Act inadvertently expanded the act's coverage to even some transactions closed on a business' established premises. The Bureau proposes amendments that would exempt transactions consummated on a business' premises, exempt transactions with depository institutions and their affiliates, and define the term "written solicitation". It is expected that the Legislature will consider this measure early in 1999.

Originally required as evidence that lenders had filed disclosure reports with appropriate federal authorities in order to qualify for public fund deposits, housing lenders' annual affidavits of compliance with the Home Mortgage Disclosure Act have become obsolete. State public funds laws were amended in 1997 to eliminate reference to the affidavit. In addition, federal agency Internet sites now provide detailed information about reporting requirements. The Bureau will recommend that this affidavit provision be repealed.

The Bureau will recommend an amendment to the SMLA to correct several inadvertent errors in the 1997 modernization of this law and is

promulgating an amendment to the SMLA rules to conform with 1997 changes in the law.

The Bureau would like to see the Legislature consider this session a bill that would allow directors of a Michigan corporate central credit union to be residents of other states. This legislation is needed, in the event of a merger involving Michigan's corporate central credit union and a corporate central from another state, to allow the resulting credit union to maintain a Michigan charter.

OFFICE OF THE COMMISSIONER

Patrick M. McQueen,
Commissioner

Debra A. Smith,
Executive Secretary

Renee J. Ortlieb,
Assistant to the Commissioner
and Public Information
Officer

Gary K. Mielock, Chief Deputy
Commissioner

Cynthia C. Senko,
Executive Secretary

Richard. D. Lavolette,
Administrative Law Specialist

Joseph E. Petterson, Risk
Manager

Alan J. LaVigne, Student
Assistant

The Commissioner of the Financial Institutions Bureau is appointed by the Governor with the advice and consent of the Senate and serves at the pleasure of the Governor under the provisions of the Michigan Banking Code of 1969, as amended. The Commissioner is assisted by a chief deputy commissioner and six directors (see organization chart on page 22).

The Office of the Commissioner is responsible for establishing the overall policy, direction and daily operations of the Bureau. These responsibilities include public information and media relations, strategic planning, performance measures, ethics, audits and vulnerability assessments, risk management, Freedom of Information Act requests, administrative hearings, and publications, including the Bureau's Web Page.

FREEDOM OF INFORMATION

The Office of the Commissioner has the responsibility for responding to requests made to the Bureau for copies of public records under the Michigan Freedom of Information Act, 1976 Public Acts No. 422, as amended. During 1998, the Office of the Commissioner responded to 118 requests for copies of public documents.

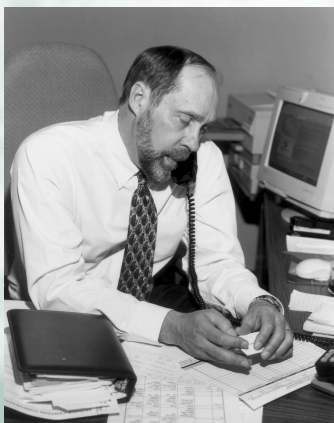
ADMINISTRATIVE HEARINGS

The Office of the Commissioner provides hearing officer services for conducting the Bureau's administrative hearings and related matters pursuant to the Administrative Procedures Act, 1969 Public Act No. 306, as amended, and relevant regulatory statutes.

In 1998, the Bureau received three new requests for hearings. One case, which involved a cease and desist order under the Mortgage Brokers, Lenders, and Servicers Licensing Act and the Secondary Mortgage Loan Act, was resolved by a Stipulation and Consent Order.

The remaining two requests were filed under the Mortgage Brokers, Lenders, and Servicers Licensing Act and were continued over into 1999. One case involved the denial of an application for a mortgage broker license and the other involved the revocation of a mortgage broker license.

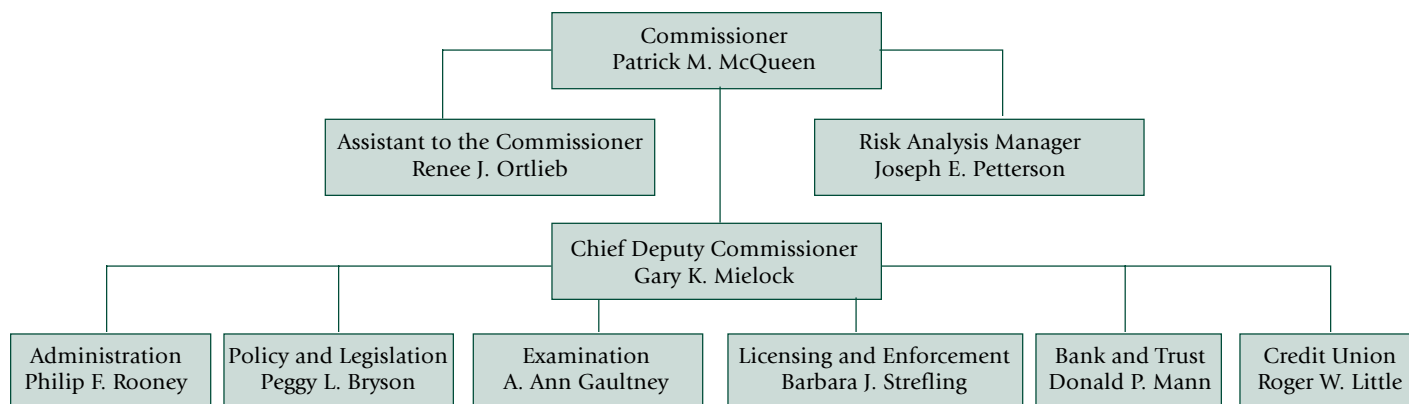
In addition, the hearings officer handled four cases carried over from prior years. One case involving the revocation of a mortgage broker and lender license under the Mortgage Brokers, Lenders, and Servicers Licensing Act was dismissed. In a second case, the party requesting the



Gary K. Mielock,
Chief Deputy Commissioner

hearing withdrew the request, and the underlying denial of an application for a mortgage broker license under the Mortgage Brokers, Lenders, and Servicers Licensing Act remained in effect.

In the third case, an application for a mortgage broker license under the Mortgage Brokers, Lenders, and Servicers Licensing Act was denied, and a license under the Secondary Mortgage Loan Act was revoked. The fourth case was carried over into 1999 to allow one of the parties the opportunity to appeal a federal district court decision to the United States Court of Appeals. This matter involves a cease and desist order under the Banking Code of 1969.



POLICY AND LEGISLATION DIVISION



Peggy L. Bryson,
Deputy Commissioner

DJ Culkar,
Administrative Law Specialist

Russell E. LaCoursier,
Economic Specialist

Debra A. Tunks,
Executive Secretary

The Policy and Legislation Division is responsible for a variety of functions. The unit is charged with providing research, information, and recommendations on financial services issues, legislative support, and other services to assist regulatory divisions and agency executives in setting policy and supervising financial institutions. The division coordinates the Bureau's consumer complaint handling, promulgates rules, analyzes legislation, drafts proposed legislation to address perceived needs, and compiles and disseminates information on current issues facing financial institutions, consumers of financial services, and financial regulators. It also enforces the Mortgage Anti-Redlining Act (1977 Public Act No. 135).

As in 1997, much of the unit's attention focused on supporting the Bureau's legislative program. The unit staff continued to coordinate development of a draft proposal to modernize the Banking Code of 1969. The unit spearheaded the development of a draft to modernize the Consumer Financial Services Act and language that would clarify the newly amended Home Solicitation Sales Act. The unit has developed language to strengthen the enforcement tools available to the Commissioner under several licensing statutes. Also, the unit has begun the process of promulgating an amendment to the Secondary Mortgage Loan Act rules. This change is needed to reflect the amendments to the act in 1997. For more information on these initiatives, see Plans and Objectives.

The unit monitors trends in consumer complaints regarding financial institutions and represents the agency on the Senior Exploitation Quick Response Task Force and a multi-agency consumer assistance network. Division staff also assist regulatory units with development of enforcement actions and interpretations of state law.

In order to promote productivity and efficiency, all unit personnel took computer training classes in Word and Excel, FIB Management Training, and the Consumer and Industry Services Drug and Alcohol Program. Other training courses taken by individuals in the unit include the CSBS Issues Forum, Managing Multiple Priorities, File Management, Grammar and Usage Seminar, and How to Supervise People.

BANK AND TRUST DIVISION



Donald P. Mann,
Deputy Commissioner

William L. Pilkington,
Assistant Director,
Examination Unit

Darwyn V. Sanborn,
Assistant Director,
Corporate Regulatory
Services Unit

Carolyn E. Such,
Executive Secretary

Allie Jones,
Examination Unit
Secretary

Steven D. Cutshaw,
Corporate Specialist

Linda K. Hansen,
Corporate Specialist

Sandra I. Slee,
Corporate Specialist

AUTHORITY

The Bank & Trust Division is primarily responsible for the regulation and supervision of Michigan's 133 state banks and two safe deposit companies under authority of Act 319 of the Public Acts of 1969 (the Michigan Banking Code of 1969), as amended; 5 state savings banks, pursuant to Act 354 of the Public Acts of 1996 (the Michigan Savings Bank Act); and 9 Business and Industrial Development Corporations (BIDCOs), pursuant to Act 89 of the Public Acts of 1986 (the Michigan BIDCO Act). The division's major focus is to ensure that financial institutions under its supervision satisfy the public need for financial services, and operate in a safe and sound manner.

PERSONNEL AND TRAINING

The division, headed by Deputy Commissioner Donald P. Mann, is comprised of a well trained, seasoned staff of professional examiners and office staff. Assistant Director William L. Pilkington oversees examination supervision activities, with a staff of five supervisors and 34 field examiners. Assistant Director Darwyn V. Sanborn oversees corporate activities, with a staff of three corporate specialists.

The Bureau has always had a firm commitment to training and professional development. Accordingly, division personnel at every level are provided training opportunities throughout the year. During 1998, every member of the division's staff attended at least one training and/or professional development class or seminar. Areas of training included Year 2000 (Y2K), trust, capital markets, lending, risk management, international banking, white collar crime, and emerging issues affecting community and multinational banking. Several division examiners have also attended graduate schools of banking held at various universities, including two examiners enrolled during 1998. Additionally, Regional Supervisor Gary Groves participated in the development and testing of a new bank examination system. The system, developed by the Federal Financial Institutions Examination Council (FFIEC), provides for a common examination format: the common format facilitates compatibility among state and federal agencies, and will serve to streamline and enhance the examination process.

On April 28, 1986, the division received recognition of its competence and capability when it became accredited under the Conference of State Bank Supervisors' (CSBS) Accreditation Program. The division was among the first state banking agencies in the nation to receive accreditation. The division was re-accredited on February 9, 1993, and again on June 8, 1998.

EXAMINATION AND SUPERVISION

The Michigan Banking Code of 1969 and the Michigan Savings Bank Act require that each state-chartered bank and savings bank receive an annual examination. In fulfilling this requirement, the Bureau may use an examination made pursuant to the Federal Reserve Act or the Federal Deposit Insurance Act. During 1998 all state-chartered banks, savings banks, and BIDCOs were examined at least once by either representatives of the division, the Federal Deposit Insurance Corporation, or the Federal Reserve Banks of Chicago or Minneapolis. The division also conducted 15 trust examinations, 6 off-site examinations, and made 25 on-site visitations. As of December 31, 1998, there was one bank on the division's "problem bank" list; no savings banks on the "problem" list; and one BIDCO on the "problem" list.

The Bank & Trust Division continued employing risk-based supervisory strategies in 1998. All banks were monitored quarterly through review of uniform bank performance reports, other call report generated information, and specifically requested data. New institutions, problem institutions, and institutions with volatile risk profiles received quarterly visitations.

Large and higher risk institutions were generally reviewed jointly or concurrently with the federal agencies. Regardless of the nature of the examination, examination results were shared between agencies and comprehensive supervisory strategies were jointly developed and employed.

Pre-examination request letters were tailored to information needs determined by the Examiner-In-Charge in assessing each institution's risk profile. At the conclusion of each examination, examiners met with senior management to review findings. As necessary or requested, division management and examiners-in-charge met with Boards of Directors to review examination

findings and determine appropriate management action.

On April 9, 1998, OmniBank, River Rouge, Michigan was closed by the commissioner and the Federal Deposit Insurance Corporation (FDIC) was named receiver. The FDIC subsequently approved the assumption of the deposits and the purchase of some of the assets of the former bank by the newly state-chartered ShoreBank, Detroit. ShoreBank, Detroit assumed \$39.9 million in deposits and acquired \$41.8 million in assets. OmniBank had total assets of \$42.2 million as of January 9, 1998. The remaining assets were retained for later disposition by the receivership. There was no loss to depositors as a result of this action.

Section 24 of the Federal Deposit Insurance Act was revised in 1998. This revision streamlined the process for state banks to engage in a variety of activities including real estate, securities, and some insurance activities. The streamlined process and the ability of the commissioner to promulgate rules authorizing banks and savings banks to exercise powers that promote competition pursuant to the banking code and the savings bank act has allowed banks to efficiently engage in profitable activities outside of traditional core bank activities.

YEAR 2000

The division, in cooperation with the FDIC and Federal Reserve Banks of Chicago and Minneapolis, is engaged in assessing the preparedness of Michigan's state-chartered banks, savings banks, safe deposit companies and BIDCOs.

Under the auspices of the FFIEC, guidelines have been established for Y2K preparedness for all financial institutions throughout the country. Phase I, beginning September 30, 1997 and ending June 30, 1998, involved identifying and

prioritizing mission critical systems. Phase I assessments of all Michigan state-chartered banks and savings banks were completed by representatives of the FDIC or Federal Reserve Banks of Chicago and Minneapolis. Assessments of state-chartered BIDCOs and safe deposit box companies were conducted by Division personnel. All institutions were found to be satisfactorily preparing for the century date change.

Phase II, beginning July 1, 1998 and ending June 30, 1999 requires institutions to implement a customer due diligence program, complete development of written Y2K testing strategies, complete a customer impact assessment, develop contingency plans, and begin testing mission critical systems. Phase II requires that all financial institutions be examined to assess Phase II preparedness by March 31, 1999. Between April 1 and June 30, 1999 institutions receiving a less than satisfactory assessment will be placed under a supervisory action, and receive additional supervision to insure Y2K preparedness. As part of regular supervisory efforts, the Division will conduct Phase II assessments during all independent examinations between October 1, 1998 and March 31, 1999.

In addition to on-site Y2K examinations, division personnel have participated in periodic meetings held with representatives of the FDIC, Federal Reserve Bank of Chicago and the Comptroller of the Currency to discuss Y2K initiatives. As the century date change approaches, meetings of this type will continue to be held to discuss Y2K issues, examination progress, areas of regulatory concern and regulatory agency contingency planning.

CORPORATE CHANGES

COMMERCIAL BANKS

As of December 31, 1998, there were 169 commercial banks operating in the State of

Michigan; 133 or 78.7% of which were state-chartered banks. During 1998, nine new banks were chartered, and one national banking association converted to state-charter. For the first time since 1982 the number of state-chartered commercial banks at year-end was greater than the number at the beginning of the year.

SAVINGS BANKS

There were 24 savings banks operating in Michigan as of December 31, 1998; five, or 20.8% were state-chartered.

FINANCIAL TRENDS

COMMERCIAL BANKS

As of year-end 1998, state-chartered commercial banks posted total consolidated assets of \$99.6 billion, representing a 14.2% increase over year-end 1997 totals. Michigan's commercial banks continue to benefit from prudent management and a strong economic environment. State-chartered banks' return on assets compare very favorably with the national average. As of year-end 1998 net consolidated income for state-chartered commercial banks amounted to \$1.4 billion, a 13.9% increase over year-end 1997 totals. The aggregate return on average assets for state-chartered commercial banks was 1.48%.

Aggregate equity capital in Michigan's state-chartered banks amounted to \$8.3 billion. This represents an 11.3% increase over year-end 1997 totals for commercial banks.

SAVINGS BANKS

State-chartered savings banks posted total consolidated assets of \$2.9 billion, representing a 6.3% increase. They reported an aggregate net income of \$31 million for 1998, representing a 10.7% increase over year-end 1997 totals. The aggregate return on average assets for savings

banks was 1.11%. Savings bank equity was \$235 million at year-end 1998, an increase of 2.6% over prior year totals.

BIDCOS

As of December 31, 1998, BIDCOs posted total consolidated assets of \$79.2 million, representing a 10.5% increase from year-end 1997 totals. There were 185 total provisions of financing assistance outstanding at year-end 1998, reflecting a 15.6% increase over year-end 1997 totals.

INDUSTRY ASSOCIATION

The division has had a long standing relationship with various trade associations, including the Michigan Bankers Association (MBA), the Michigan Association of Community Bankers (MACB), the Michigan League of Community Bankers (Michigan League) and the Conference of State Bank Supervisors (CSBS). Division personnel have attended numerous industry-related functions during 1998. Division representatives have also spoken at various trade association functions on a variety of topics affecting the industry, including presentations at the Robert M. Perry Schools of Banking at Central Michigan University. Additionally, division personnel, along with senior Bureau management regularly attend the MBA annual convention and bank management conference; the MACB annual convention; the Michigan League annual convention; and the CSBS annual meeting and deputy seminars.

LOOKING FORWARD

During 1999, the division will continue to provide the highest quality service to the industries we regulate. Division personnel are executing plans for risk-based supervision in 1999 and beyond. The alternating examination program will continue and traditional safety and soundness

examinations will be streamlined for well performing, sound financial institutions.

In 1999, substantial resources will be devoted to Y2K. Examiners will be evaluating each institution's progress in preparing for Y2K. As the century date change approaches and for a brief time after, field staff will significantly increase their contact with financial institution managers to monitor the effects of Y2K dynamics.

Every bank, trust department, savings bank, and BIDCO has been assigned to individual examiners. These examiners, called Central Points of Contact (CPC) will be responsible for coordinating the regulatory oversight of a portfolio of two to eight institutions. Managers of financial institutions regulated by the division should familiarize themselves with the CPC of their institution. The CPC concept will provide directors and officers a consistent and familiar regulatory contact responsible for designing a regulatory strategy based on the risk profile of their institution.

Examiners and financial institutions will continue to benefit from a greater use of technology. The division, Federal Reserve Banks, and the FDIC have migrated to a common bank examination platform. The examination program, known as the GENeral Examination SYStem (Genesys), is fully integrated with existing data sources and will significantly reduce report preparation time. Field testing of Genesys will begin in 1999 and Genesys should be fully operational no later than 2000. In addition to Genesys, division personnel have developed an electronic book of knowledge for all banks, savings banks, and BIDCOs.

INTERNET ACCESS

Further information regarding division services may be found on the Bureau's internet site at <http://www.cis.state.mi.us/fib/>.

CONSOLIDATED BALANCE SHEET OF STATE BANKS

AS OF DECEMBER 31 (IN MILLIONS)

	133 Banks December 31, 1998	127 Banks December 31, 1997	Percentage Increase (Decrease)
ASSETS			
Cash and balances due from depository institutions	\$ 5,395	\$ 4,585	17.67%
Securities	14,280	12,049	18.52%
Federal funds sold and securities purchased under agreements to resell	1,541	1,964	(21.54%)
Net loans and leases	72,785	64,532	12.79%
Assets held in trading accounts	498	106	369.81%
Premises and fixed assets (including capitalized leases)	1,295	1,131	14.50%
Other real estate owned	43	41	4.88%
Investments in unconsolidated subsidiaries and associated companies	57	2	27,500.00%
Customers' liability on acceptances executed and outstanding	24	47	(48.94%)
Intangible assets	975	611	59.57%
Other assets	2,666	2,098	27.07%
Total Assets	\$ 99,559	\$ 87,166	14.22%
LIABILITIES			
Total deposits	\$ 73,732	\$ 61,580	19.73%
Federal funds purchased and securities sold under agreements to repurchase	7,204	2,660	170.83%
Demand notes issued to the U.S. Treasury	525	2,356	(77.72%)
Other borrowed money, including mortgage indebtedness and obligations under capitalized leases	6,796	10,145	(30.01%)
Bank's liability on acceptances executed and outstanding	24	47	(48.94%)
Notes and debentures subordinated to deposits	1,811	1,591	13.83%
Other liabilities	1,213	1,368	(11.33%)
Total Liabilities	\$ 91,305	\$ 79,747	14.49%
EQUITY CAPITAL			
Perpetual preferred stock	\$ 5	\$ 5	N/C
Common stock	475	413	15.01%
Surplus	3,261	2,740	19.01%
Undivided profits and capital reserves	4,513	4,261	5.91%
Total Equity Capital	\$ 8,254	\$ 7,419	11.25%
Total Liabilities and Equity Capital	\$ 99,559	\$ 87,166	14.22%

CONSOLIDATED STATEMENT OF INCOME OF STATE BANKS

YEAR ENDED DECEMBER 31 (IN MILLIONS)

SOURCES AND DISPOSITION OF INCOME

	1998	1997	Percentage Increase (Decrease)
INTEREST INCOME:			
Interest and fee income on loans	\$ 5,803	\$ 5,403	7.40%
Interest from lease financing receivables	157	141	11.35%
Interest income on balances due from depository institutions	8	12	(33.33%)
Interest and dividend income on securities	919	846	8.63%
Interest income from assets held in trading accounts	2	2	N/C
Interest income on federal funds sold and securities purchased under agreements to resell	91	79	15.19%
Total interest income	\$ 6,980	\$ 6,483	7.67%

INTEREST EXPENSES:

Interest on deposits	\$ 2,328	\$ 2,112	10.23%
Expense of federal funds purchased and securities sold under agreements to repurchase	286	213	34.27%
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	505	581	(13.08%)
Interest on mortgage indebtedness and obligations under capitalized leases	0	0	N/C
Interest on notes and debentures subordinated to deposits	95	93	2.15%
Total interest expense	\$ 3,214	\$ 2,999	7.17%
Net interest income	\$ 3,766	\$ 3,484	8.09%
LESS: Provision for loan and lease losses	253	308	(17.85%)
Noninterest income	1,902	1,497	27.05%
Gains (losses) on securities not held in trading accounts	25	26	(3.85%)

NONINTEREST EXPENSES

Salaries and employee benefits	\$ 1,588	\$ 1,394	13.92%
Expenses on premises and fixed assets (net of rental income) (excluding salaries and employee benefits and mortgage interest)	424	365	16.16%
Other noninterest expense	1,341	1,103	21.58%
Total noninterest expense	\$ 3,353	\$ 2,862	17.16%
Income (loss) before income taxes and extraordinary items and other adjustments	\$ 2,087	\$ 1,837	13.61%
LESS: Applicable income taxes	697	617	12.97%
Income (loss) before extraordinary items and other adjustments	1,390	1,220	13.93%
Extraordinary items (net of taxes)	0	0	N/C
Net income	\$ 1,390	\$ 1,220	13.93%

CONSOLIDATED BALANCE SHEET OF STATE SAVINGS BANKS AS OF DECEMBER 31 (IN MILLIONS)

	5 Savings Banks December 31, 1998	5 Savings Banks December 31, 1997	Percentage Increase (Decrease)
ASSETS			
Cash and balances due from depository institutions	\$ 100	\$ 90	11.11%
Securities	193	182	6.04%
Federal funds sold and securities purchased under agreements to resell	0	1	(100.00%)
Net loans and leases	2,487	2,346	6.01%
Assets held in trading accounts	0	0	N/C
Premises and fixed assets (including capitalized leases)	45	42	7.14%
Other real estate owned	2	2	N/C
Investments in unconsolidated subsidiaries and associated companies	0	0	N/C
Customers' liability on acceptances executed and outstanding	0	0	N/C
Intangible assets	19	17	11.76%
Other assets	26	22	18.18%
Total Assets	\$2,872	\$ 2,702	6.29%
LIABILITIES			
Total deposits	\$ 2,116	\$ 1,971	7.36%
Federal funds purchased and securities sold under agreements to repurchase	2	0	200.00%
Demand notes issued to the U.S. Treasury	0	0	N/C
Other borrowed money, including mortgage indebtedness and obligations under capitalized leases	497	480	3.54%
Bank's liability on acceptances executed and outstanding	0	0	N/C
Notes and debentures subordinated to deposits	0	0	N/C
Other liabilities	22	22	N/C
Total Liabilities	\$ 2,637	\$ 2,473	6.63%
EQUITY CAPITAL			
Perpetual preferred stock	\$ 0	\$ 0	N/C
Common stock	1	1	N/C
Surplus	118	105	12.38%
Undivided profits and capital reserves	116	123	(5.69%)
Total Equity Capital	\$ 235	\$ 229	2.62%
Total Liabilities and Equity Capital	\$ 2,872	\$ 2,702	6.29%

CONSOLIDATED STATEMENT OF INCOME OF STATE SAVINGS BANKS AS OF DECEMBER 31 (IN MILLIONS)

SOURCES AND DISPOSITION OF INCOME

	1998	1997	Percentage Increase (Decrease)
INTEREST INCOME:			
Interest and fee income on loans	\$ 195	\$ 186	4.84%
Interest from lease financing receivables	0	0	N/C
Interest income on balances due from depository institutions	3	2	50.00%
Interest and dividend income on securities	12	12	N/C
Interest income from assets held in trading accounts	0	0	N/C
Interest income on federal funds sold and securities purchased under agreements to resell	0	0	N/C
Total interest income	\$210	\$ 200	5.00%
INTEREST EXPENSES:			
Interest on deposits	\$ 91	\$ 87	4.60%
Expense of federal funds purchased and securities sold under agreements to repurchase	0	0	N/C
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	28	28	N/C
Interest on mortgage indebtedness and obligations under capitalized leases	0	0	N/C
Interest on notes and debentures subordinated to deposits	0	0	N/C
Total interest expense	\$ 119	\$ 115	3.48%
Net interest income	\$ 91	\$ 85	7.06%
LESS: Provision for loan and lease losses	3	2	50.00%
Noninterest income	29	17	70.59%
Gains (losses) on securities not held in trading accounts	7	0	700.00%
NONINTEREST EXPENSES			
Salaries and employee benefits	\$ 35	\$ 30	16.67%
Expenses on premises and fixed assets (net of rental income) (excluding salaries and employee benefits and mortgage interest)	10	9	11.11%
Other noninterest expense	31	19	63.16%
Total noninterest expense	\$ 76	\$ 58	31.03%
Income (loss) before income taxes and extraordinary items and other adjustments	\$ 48	\$ 42	14.29%
LESS: Applicable income taxes	17	14	21.43%
Income (loss) before extraordinary items and other adjustments	31	28	10.71%
Extraordinary items (net of taxes)	0	0	N/C
Net income	\$ 31	\$ 28	10.71%

BUSINESS AND INDUSTRIAL DEVELOPMENT CORPORATIONS (BIDCOs)

	12/31/98	12/31/97
Licensees	8	9
Licensees Examined	8	9
Provisions of financing assistance to agriculture firms	0	0
Financing assistance to agriculture firms	0	0
Provisions of financing assistance to mining firms	0	1
Financing assistance to mining firms	0	\$1,000,000
Provisions of financing assistance to construction businesses	0	7
Financing assistance to construction businesses		\$2,310,000
Provisions of financing assistance to manufacturing businesses	19	10
Financing assistance to manufacturing businesses	\$7,206,264	\$4,053,838
Provisions of financing assistance to transportation, communication, electricity, gas, and sanitary services businesses	0	1
Financing assistance to transportation, communication, electricity, gas, and sanitary services businesses	0	\$500,000
Provisions of financing assistance to wholesale trade businesses	3	4
Financing assistance to wholesale trade businesses	\$1,700,000	\$1,450,000
Provisions of financing assistance to retail trade businesses	3	5
Financing assistance to retail trade businesses	\$720,000	\$2,385,873
Provisions of financing assistance to finance, insurance and real estate businesses	2	1
Financing assistance to finance, insurance, and real estate businesses	\$1,300,000	\$700,000
Provisions of financing assistance to service businesses	12	16
Financing assistance to service businesses	\$7,635,000	\$6,271,183
Provisions of financing assistance to nonclassifiable establishments	1	1
Financing assistance to nonclassifiable establishments	\$328,000	\$120,000
Total financings for period	40	46
Total financing assistance for the period	\$18,889,264	\$18,790,894
Total provisions of financing assistance currently outstanding or committed	185	160
Total financing assistance currently outstanding	\$72,590,520	\$54,610,311
Provisions of financing assistance to minority-owned business firms	2	5
Financing assistance to minority-owned business firms	\$1,450,000	\$765,000
Provisions of financing assistance to women-owned business firms	0	4
Financing assistance to women-owned business firms	0	\$1,166,250
Estimated number of jobs created or retained *	1,184	677

* Estimates provided by licensees.

1998 BANK AND TRUST DIVISION

REGIONS AND FIELD PERSONNEL

EAST REGION

Gary L. Thielsen, Regional Supervisor

Thomas J. Battle	Shelley L. McCarthy
Kathleen M. Billmeier	Kevin J. Pantera
James H. Brown II	Susan A. Stieber
C. Terry Callahan	Chris Werwega
Roger A. Lonsway	Joanne C. West

CENTRAL REGION

Curtis B. McMillin, Regional Supervisor

Robert G. Caruso	Karen K. Lawson
Gail A. Donovan	Patrick J. Lynch
Patrick A. Holleran	Kathleen M. McDevitt
Kirt L. Gundry	Charles J. Scott
John J. Kolhoff	

WEST REGION

Stephen F. Trembath, Regional Supervisor

Rae L. Farris	Michael E. Mead
Connie Gorsline	Bruce Ohland
Donald J. Hermann	Peter R. Oquist
Karl J. Johnson	Judy I. Ritter
Charlie L. Kohler	Sheila J. Vigh

UPPER PENINSULA REGION

Gary D. Groves, Regional Supervisor

John M. Lyle
Linda S. Osstyn
David J. Theoret

TRUST ACTIVITIES UNIT

Michael J. Anderson, Supervisor

Walter P. Baier
Michael J. Friedrich

CREDIT UNION DIVISION



Roger W. Little,
Deputy Commissioner

Tim C. Standfest,
Assistant Director

Paul A. Tautkus, Assistant
Director

Debra S. Hallenbeck,
Senior Review Examiner

Sharon M. Long, Executive
Secretary

Susan L. Joseph,
Examinations Secretary

Esther Torres, Examinations
Secretary

AUTHORITY

The Credit Union Division is responsible for the regulation and supervision of state-chartered credit unions under the authority of the 1925 Public Act No. 285, as amended (The Michigan Credit Union Act). The division's primary goal is to ensure that state-chartered credit unions operate safely, soundly, and in compliance with applicable law.

PERSONNEL AND TRAINING

Director Roger Little has a highly trained, professional staff of examiners and office employees to fulfill the division's responsibilities. Assistant Director Paul Tautkus oversees corporate activities, Year 2000 supervision, and the Automated Systems Unit. Assistant Director Tim Standfest oversees the Examinations Unit with a staff of five Regional Supervisors, and 26 field examiners.

FIB management is strongly committed to providing training and development opportunities to its employees. Accordingly, division management and staff attended various professional development and refresher classes throughout 1998. The National Credit Union Administration (NCUA) and National Association of State Credit Union Supervisors (NASCUS) sponsored many of the classes which included the following: Year 2000 (Y2K) Compliance, Contemporary Critical Issues, Advanced Investments, Assessing Emerging Risks, Consumer Compliance, Senior Updates, Supervisory Committee Review and Fraud Detection, Problem Resolution, and Effective Writing.

The division also held a week-long training conference for its employees at Mt. Pleasant in June 1998. Several speakers led sessions on topics such as electronic banking, bond coverage, smart cards, risk-based examinations, consumer compliance, and Y2K issues.

In June 1998, Director Roger Little completed the final year of a three year program at the Graduate Banking School at Louisiana State University.

In November 1998, Senior Examiner Toni Girolami passed the CPA examination. Toni joins six other staff members that previously passed the CPA examination.

The division is accredited by NASCUS. Michigan was the first state to receive their accredited status on October 9, 1989. The division was re-accredited during 1994. The NASCUS re-accreditation is valid for a five-year period, subject to annual evaluation update reports. The division will undergo a re-accreditation review during 1999.

EXAMINATION AND SUPERVISION

The division met its regulatory and supervisory responsibilities in 1998 by conducting an annual examination at each of the 316 (including CenCorp) state-chartered credit unions. The division also performed 45 follow-up examinations at 39 credit unions that exhibited problem areas at the annual examination or through off-site monitoring.

The division manages its resources using "risk-focused supervision." The division accomplishes this by continuously assessing each credit union, and scheduling examinations and setting examination scopes based on identified risks.

Each state-chartered credit union is assigned to an Examiner in Charge (EIC). Each EIC is responsible for the ongoing monitoring of the overall performance and condition of assigned institutions. Early warning statistical reports, developed by Examination Manager Scott Thompson, also help alert the division to emerging problems.

The division sends a Pre-Examination Inquiry to credit unions prior to each examination. Using the information provided, the EIC's target risk areas, and set a preliminary examination scope prior to each on-site examination.

The division continued monitoring each credit unions' progress with Y2K compliance. On May 4, the division sent a letter to each credit union board of directors containing specific actions to achieve Y2K compliance and milestone dates. Examiners evaluated credit unions' Y2K compliance status at each examination in 1998. The division collected quarterly Y2K status reports from each credit union in 1998 on behalf of NCUA. The division also performed Y2K specific examinations at 11 selected credit unions and 13 independent service vendors. The division entered into Memorandums of Agreement with seven

credit union boards of directors due to their failure to progress satisfactorily with ensuring Y2K compliance; they have since made improvements. Overall, state-chartered credit unions and their independent service providers appear to be progressing satisfactorily with Y2K compliance.

Meeting with credit union representatives to discuss examination issues is an integral component of the division's supervision function. Division representatives meet with key management personnel at the conclusion of every examination. Division representatives also met with boards of directors at 48 of the 316 state-chartered credit unions to discuss examination issues in 1998.

We continue to work cooperatively with our federal counterpart, the NCUA. FIB examinations and NCUA insurance reviews are performed jointly at selected credit unions. Division representatives meet regularly with NCUA representatives for planning purposes and to discuss emerging issues.

While the economy remained strong in 1998, and the overall condition of credit unions remained favorable, some individual credit unions suffered with poor earnings, high delinquency, high loan losses, and reduced capital. These conditions and other identified risks were typically the result of poor management, and decisions made without adequate research and planning.

To address these managerial weaknesses, the division issued Credit Union Bulletin 98-1 on December 9, 1998. The purpose of the bulletin was to clarify the Bureau's position on the duties and responsibilities of credit union directors. Each board of directors must develop a Directorship Policy that sets requirements and guidelines for directors, and clearly states the board's view of its role in guiding the credit union.

The number of credit unions with CAMEL 3, 4, or 5 ratings declined 19% in 1998. Of the 316 credit unions supervised, the division assigned CAMEL ratings of 3 or lower to 35, representing 10% of total credit union assets.

CORPORATE CHANGES

Of the 499 credit unions in Michigan, 316, or 63%, are state-chartered — down from 321 at year-end 1997. During 1998, five credit unions merged into other state-chartered credit unions; one credit union merged into a federally-chartered credit union; and one credit union converted from a federal to a state charter. The most common reasons for the mergers were to realize economies of scale, and to provide more services to the members of the merging credit union.

Bylaw amendments continued at a strong pace in 1998. Besides field of membership amendments, the most common bylaw amendment was to Article XII, which governs lending. Many credit unions converted to the less-restrictive Article XII, Option 1 language. One credit union re-wrote their entire bylaws to streamline and remove redundancies.

Field of membership changes slowed from recent years past. Of the 316 state-chartered credit unions, the Bureau has approved 144 to serve multiple groups as provided in Section 5 of the Michigan Credit Union Act, and the Addendum to Credit Union Policy Bulletin 83-1. The Bureau authorized all but 11 of these fields of membership prior to 1998.

The division processed 10 corporate name change requests in 1998, generally to more accurately represent the credit unions' expanded fields of membership.

FEDERAL LEGISLATION

On February 25, 1998, the United States Supreme Court ruled that NCUA's longstanding select employee group policy was contrary to the plain language of the field of membership provisions of the Federal Credit Union Act. The court's ruling did not, however, directly affect state-chartered credit unions and their fields of membership.

On August 7, 1998, President Bill Clinton signed into law the Credit Union Membership Access Act of 1998, HR 1151. The Act explicitly authorizes multiple group chartering for *federal* credit unions, and makes other changes in the Federal Credit Union Act; some of which affect *all federally-insured* credit unions. For Michigan state-chartered credit unions, the act primarily:

1. Imposes a new aggregate limit on a credit union's outstanding member business loans; and
2. Establishes a system of tiered capital requirements taking effect August 7, 2000. For credit unions not meeting the standard, progressively more stringent "prompt corrective action" requirements will apply.

FINANCIAL TRENDS

Michigan state-chartered credit unions experienced 12% asset growth in 1998 — the strongest since 1986. Less than 40% of the asset growth was converted to loans; over 60% flowed into credit union investment portfolios. As a result, the aggregate Loans to Assets Ratio declined from 64% at year-end 1997 to 61% at year-end 1998. Aggregate investments grew 25% in 1998 with 54% of the growth flowing into corporate credit unions, and 43% into the "other investment" category consisting primarily of corporate obligations. The aggregate return on assets declined slightly in 1998, but remained strong at .97%. Overall, credit unions remained well capitalized at 11.46% of assets.

INDUSTRY ASSOCIATIONS

Division management remains committed to working cooperatively with trade associations and other professional organizations for the overall benefit of the credit union industry. Accordingly, division personnel attended numerous industry-related functions in 1998. Staff members also presented various topics in 1998 for the Michigan Association of Credit Unions, the Michigan Credit Union League, the Michigan Association of CPA's, and the MSU Office of Urban Affairs.

The division remains closely involved with NASCUS at the national level. NASCUS is dedicated to the promotion of the dual chartering system and the advancement of the autonomy and expertise of state credit union regulatory agencies. Director Roger Little serves on the Regulatory Development Committee which designs, monitors, and implements programs which strengthen state credit union supervisory agencies. The most significant product of this committee in 1998 was the creation of a viable cooperative supervisory agreement for the monitoring of multi-state credit unions. The agreement was endorsed by every state supervisory agency. Among many other projects, the committee is also commissioning an intensive study of all NCUA rules and regulations affecting state-chartered credit unions.

Semi-annually, an advisory council of credit unions meets with the Commissioner of the Bureau and other senior staff to discuss and advise on current issues and topics that face credit unions. The council is made up of 15 credit union managers and a volunteer credit union board member representing a variety of credit unions from around the state. Some of the issues discussed in 1998 were director qualifications, HR 1151, field of membership, ATM surcharges, ATM fraud, interstate branching, Y2K, industry trends, member business loan rules, and merger policies.

LOOKING FORWARD

In 1999, the division will continue to provide a high-quality examination and supervision program. The division's "risk-focused supervision" will enable a proper allocation of resources and attention to the most critical issues.

The division is currently developing a comprehensive internal data base which will contain current and historic data on each credit union. Staff members will have easy access to credit union data to aid in their supervision responsibilities. Staff members will also be able to respond more rapidly to requests for data.

The division will continue to closely monitor credit unions' efforts toward Y2K compliance. Credit unions must complete Y2K testing by June 30, 1999, and should also have established contingency and liquidity plans.

Y2K compliance and meeting members' needs in an ever-changing competitive market should be top priorities of each credit union board of directors.

Visit us at our web page at <http://www.cis.state.mi.us/fib/>. The web site contains credit union listings (by name and by city), statutes, rules, bylaws, bulletins, forms, applications, Y2K plans and resources, and answers to frequently asked questions.

CONSOLIDATED BALANCE SHEET OF STATE-CHARTERED CREDIT UNIONS

(EXCLUDES CENTRAL CORPORATE CREDIT UNION) (IN THOUSANDS)

	December 31, 1998	December 31, 1997	Percent Increase (Decrease)
ASSETS			
Loans			
Unsecured/Credit Card/Lines of Credit	\$ 1,302,690	\$ 1,329,341	(2.00) %
Vehicle	2,680,686	2,638,316	1.61
Real Estate	2,824,129	2,332,319	21.09
Other	581,058	584,838	(.65)
Allowance for Loan Losses	(57,128)	(56,096)	1.84
Investments			
U.S. Government Obligations and Federal Agency Securities	663,662	705,753	(5.96)
Corporate Credit Unions	1,454,248	1,024,329	41.97
Other Credit Unions	18,427	15,320	20.28
Commercial Banks, Savings and Loans, and Mutual Savings Banks	544,950	476,327	14.41
Mutual Funds and Common Trust Investments	45,768	35,361	29.43
NCUA Share Insurance Capitalization Deposit	90,871	85,109	6.77
Other	1,240,451	1,001,463	23.86
Cash and Cash Equivalents	301,881	260,755	15.77
Net Fixed Assets	260,894	231,362	12.76
Other Assets	146,794	130,811	12.22
Total Assets	\$12,099,381	\$10,795,308	12.08%

LIABILITIES AND EQUITY

Liabilities			
Notes Payable	\$ 39,125	\$ 31,025	26.11 %
Accrued Dividends/Interest Payable	31,453	33,808	(6.97)
Other Liabilities	75,660	75,215	.59
Savings			
Regular Shares	3,779,604	3,563,651	6.06
Share Drafts	1,319,045	1,088,862	21.14
Money Market Shares	1,853,884	1,540,728	20.33
Share Certificates	2,297,391	1,944,301	18.16
IRA/KEOGH	864,234	832,491	3.81
Other	452,458	418,584	8.09
Equity			
Regular Reserves	394,569	363,970	8.41
Investment Valuation Reserve	559	887	(36.98)
Accumulated Unrealized Gains (Losses) on Available for Sale Securities	30,625	23,758	28.90
Other Reserves	207,262	198,240	4.55
Undivided Earnings	753,512	679,788	10.85
Total Liabilities and Equity	\$12,099,381	\$10,795,308	12.08 %

CONSOLIDATED STATEMENT OF OPERATIONS OF STATE-CHARTERED CREDIT UNIONS

(EXCLUDES CENTRAL CORPORATE CREDIT UNION) (IN THOUSANDS)

	December 31, 1998	December 31, 1997	Percent Increase (Decrease)
Operating Income			
Interest on Loans	\$639,101	\$603,822	5.84 %
Less: Interest Refunded	(3,225)	(3,903)	(17.37)
Income from Investments	220,876	203,017	8.80
Fee Income	66,481	60,076	10.66
Other Operating Income	22,638	18,676	21.21
Total Operating Income	945,871	881,688	7.28
Cost of Funds			
Dividends	174,173	171,795	1.38
Interest on Deposits	212,702	183,416	15.97
Interest on Borrowings	1,772	1,983	(10.64)
Total Cost of Funds	388,647	357,194	8.81
Net Margin	557,224	524,494	6.24
Operating Expenses			
Employee Compensation and Benefits	192,497	177,965	8.17
Cost of Space	27,572	24,735	11.47
Office Operations Expense	94,730	88,470	7.08
Professional and Outside Services	35,565	32,933	7.99
Operating Fees	4,284	4,122	3.78
Other Operating Expense	59,432	56,542	5.11
Provision for Loan Losses	34,663	30,366	14.15
Total Operating Expenses	448,743	415,133	8.10
Net Operating Income	108,481	109,361	(.80)
Non-Operating Gains	2,047	13	
Net Earnings	110,528	109,374	1.06 %

SIGNIFICANT DATA AND FINANCIAL RATIOS OF STATE-CHARTERED CREDIT UNIONS

(EXCLUDES CENTRAL CORPORATE CREDIT UNION)

SIGNIFICANT DATA

	1998	1997	1996	1995	1994
Number of credit unions	315	320	323	334	339
Number of credit union members	2,516,915	2,445,380	2,412,073	2,377,955	2,330,276
Total assets*	\$ 12,099,381	\$ 10,795,308	\$ 10,021,691	\$ 9,403,097	\$ 8,958,894
Total loans outstanding*	7,388,563	6,884,814	6,269,436	5,716,202	5,207,925
Total shares and deposits*	10,566,616	9,388,617	8,765,771	8,259,599	7,933,034
Amount of loans granted during year*	4,214,076	3,769,350	3,536,764	3,100,613	3,188,527

* (in thousands)

SIGNIFICANT RATIOS

Net Equity/Total Assets	11.46%	11.73%	11.28%	10.78%	9.84%
Delinquent Loans/Total Loans	0.89	0.99	0.99	0.89	0.83
Allowance for Loan Losses/Delinquent Loans	87.24	82.37	87.76	104.44	125.06
Allowance for Loan Losses/Total Loans	0.77	0.81	0.87	0.93	1.03
Net Charge-Offs/Average Loans	0.47	0.45	0.37	0.30	0.28
Net Income/Average Assets	0.96	1.05	1.10	1.13	1.13
Gross Income/Average Assets	8.26	8.47	8.33	8.20	7.61
Cost of Funds/Average Assets	3.40	3.43	3.34	3.30	2.82
Net Margin/Average Assets	4.86	5.04	4.99	4.90	4.79
Operating Expenses(-PLL)/Average Assets	3.62	3.70	3.65	3.60	3.50
Provision for Loan Losses/Average Assets	0.30	0.29	0.24	0.17	0.16
Loan Income/Average Loans	8.96	9.18	9.28	9.29	9.16
Investment Income/Average Investments	5.97	6.18	5.89	5.70	4.89
Interest and Dividends/Average Total Savings	3.88	3.91	3.80	3.72	3.16
Total Loans/Total Assets	61.07	63.78	62.56	60.79	58.13
Total Investments/Total Assets	33.54	30.97	32.15	33.58	36.76
Fixed Assets/Total Assets	2.16	2.14	2.05	2.05	1.98
Total Loans/Total Savings	69.92	73.33	71.52	69.21	65.67
Total Borrowings/Total Savings	0.37	0.33	0.21	0.23	0.20

DISTRIBUTION OF GROSS INCOME

Interest refunded to borrowers	0.34%	0.44%	0.44%	0.48%	0.56%
Operating expense	43.63	43.45	43.60	43.87	46.02
Provision for loan loss expense	3.65	3.43	2.83	2.13	2.14
Interest on borrowings	0.19	0.22	0.11	0.14	0.10
Interest and dividend cost	40.76	40.11	39.83	40.23	37.00
Retained earnings	11.43	12.35	13.19	13.15	14.18
Total	100.00%	100.00%	100.00%	100.00%	100.00%

CLASSIFICATION OF STATE-CHARTERED CREDIT UNIONS BY ASSET SIZE

(EXCLUDES CENTRAL CORPORATE CREDIT UNION)

	Number of Credit Unions		Increase (Decrease) In Number From Prior Year	1998 Total Assets (\$000's Omitted)	Percentage In Group
	1997	1998			
\$250,000 or less	5	6	1	\$ 915	0.01%
\$250,000 to \$500,000	10	6	(4)	2,575	0.02
\$500,000 to \$1,000,000	11	11	0	7,126	0.06
\$1,000,000 to \$2,000,000	23	21	(2)	29,447	0.24
\$2,000,000 to \$5,000,000	45	39	(6)	129,743	1.07
\$5,000,000 to \$10,000,000	46	43	(3)	299,183	2.47
\$10,000,000 to \$20,000,000	46	48	2	674,675	5.58
\$20,000,000 to \$50,000,000	82	78	(4)	2,680,621	22.15
\$50,000,000 to \$100,000,000	28	35	7	2,328,846	19.25
\$100,000,000 to \$200,000,000	14	17	3	2,251,178	18.61
\$200,000,000 to \$400,000,000	8	8	0	2,236,183	18.48
Over \$400,000,000	2	3	1	1,458,889	12.06
Total	320	315	(5)	\$12,099,381	100.00%

CREDIT UNION DIVISION STAFF

REGION 1 — LOWER PENINSULA EXCLUDING SOUTHEAST MICHIGAN

Freya I. McGinty, Regional Supervisor
James H. McMullen, Exam Manager
Anthony A. Hamilton, Senior Examiner
Mark A. Utrecht, Senior Examiner
Jeffrey J. Ballard, Examiner
Brent A. Moeggenborg, Examiner

REGION 2 — SOUTHEAST MICHIGAN

Alice L. Censier, Regional Supervisor
Wanda F. Marshall, Exam Manager
Toni L. Girolami, Senior Examiner
Debra R. Sitz, Senior Examiner
Carl Woods, Senior Examiner
Stephen J. Doemer, Examiner
Crystal Richland, Examiner
Willie S. Boyd, Assistant Examiner

INFORMATION SYSTEMS — STATEWIDE

Terry L. Hassell, Senior Examiner
Patricia K. Marson, Senior Examiner

REGION 3 — SOUTHEAST MICHIGAN

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David A. Rogers, Exam Manager
Rosalyn D. Gibson, Senior Examiner
Brenda S. Hopper, Senior Examiner
Dollinda Osborne, Senior Examiner
Stanley R. Kossakowski, Examiner
Marc E. Suchyta, Examiner

REGION 4 — UPPER PENINSULA

Gary D. Groves, Regional Supervisor
John M. Lyle, Exam Manager
Linda S. Osstyn, Senior Examiner
David J. Theoret, Senior Examiner

REGION 5 — LOWER PENINSULA EXCLUDING SOUTHEAST MICHIGAN

Leanne M. O'Brien, Regional Supervisor
Scott D. Thompson, Exam Manager
Robert J. Krueger, Senior Examiner
Stephen L. Nakfoor, Senior Examiner
Denice L. Fedewa, Examiner
Karen J. Tingley, Examiner

LICENSING AND ENFORCEMENT DIVISION



Barbara J. Strefling,
Director

Linda L. Martin,
Executive Secretary

Rhonda S. Alvarado,
Secretary

Jean K. Carr, Secretary

Pamela K. Baker,
Examiner

Karen E. Porter, Examiner

James E. Westrin, Analyst

Marcia J. Miller,
Complaint Specialist

Mark W. Weigold,
Licensing Supervisor

Amy L. LeVasseur,
Student Assistant

Erin M. Martin,
Student Assistant

The Licensing and Enforcement Division is responsible for issuing and amending licenses granting authority to conduct business under the following acts: Consumer Financial Services Act; Credit Card Act; Mortgage Brokers, Lenders, and Servicers Licensing Act; Motor Vehicle Sales Finance Act; Regulatory Loan Act; Sale of Checks Act; and Secondary Mortgage Loan Act.

The division is also responsible for initiating enforcement actions against licensees in accordance with the statutes noted above and the Michigan Administrative Procedures Act. Additionally, the division is responsible for handling complaints filed by consumers against licensees.

CONSUMER FINANCIAL SERVICES ACT

The Consumer Financial Services Act, Act No. 161 of the Public Acts of 1988, as amended, provides for the licensing and regulation of institutions which provide a variety of financial services, and eliminates the need to acquire a separate license for each activity. A "Class II" license authorizes services under the Regulatory Loan Act, Motor Vehicle Sales Finance Act, Secondary Mortgage Loan Act, and Credit Card Act. A "Class I" license authorizes services under the Sale of Checks Act and Mortgage Brokers, Lenders, and Servicers Licensing Act in addition to the authorities provided under a Class II license.

A Class I license under the act requires a bond of \$125,000.00 plus \$3,000.00 for each Sale of Checks agent up to \$250,000.00, and a minimum net worth of \$100,000.00. A Class II license requires a bond of \$25,000.00, and a minimum net worth of \$50,000.00.

There were 154 offices operating under a Class I license and 68 offices operating under a Class II license at year-end 1998. This compares to 124 Class I licensees and 67 Class II licensees as of December 31, 1997.

CREDIT CARD ACT

The Credit Card Act, Act No. 379 of the Public Acts of 1984, as amended, authorizes the licensing and regulation of non-depository issuers of credit cards. A minimum net worth of \$1,000,000 is required by the act. The Commissioner may establish a higher net worth requirement if it is necessary to assure a safe and sound operation. There are no bonding requirements.

Four companies were licensed under the act as of December 31, 1998, doubling the number from year-end 1997.

MORTGAGE BROKERS, LENDERS, AND SERVICERS LICENSING ACT

The Mortgage Brokers, Lenders, and Servicers Licensing Act, Act No. 173 of the Public Acts of 1987, as amended, provides for licensing, registration, and regulation of mortgage brokers, mortgage lenders, and mortgage servicers. The act pertains to loans secured by first mortgages or land contracts covering real property located in the state of Michigan, which is used, or improved to be used, as a dwelling and designed for occupancy by four or fewer families. Licensees are typically required to have a minimum net worth ranging from \$25,000.00 to \$100,000.00 and must generally post a bond, letter of credit, or certificate of deposit in amounts ranging from \$25,000 to \$125,000.00, depending on the type of services being offered.

There were 952 licensees and 261 registrants at year-end 1998. This compares to 715 licensees and 238 registrants as of December 31, 1997.

MOTOR VEHICLE SALES FINANCE ACT

The Motor Vehicle Sales Finance Act, Act No. 27 of the Public Acts of 1950, as amended, regulates certain installment sales of motor vehicles. It provides for licensing and regulation of both the installment sellers, who are motor vehicle dealers originating installment sales contracts, and sales finance companies, the financial institutions that purchase these contracts from the dealers. The act requires bonding of sales finance companies ranging from \$5,000.00 to \$20,000.00 for main offices, plus \$10,000.00 for each branch office. Installment sellers do not have a bonding requirement. The act imposes no net worth requirements on installment sellers or sales finance companies.

As of December 31, 1998, there were 2,165 dealers licensed as installment sellers, down from 2,214 at year-end 1997. There were 868 sales finance companies (including depository financial institutions) at the end of 1998, declining from 963 at year-end 1997.

REGULATORY LOAN ACT

The Regulatory Loan Act, Act No. 103 of the Public Acts of 1963, as amended (successor to Act No. 317 of the Public Acts of 1921, the Small Loan Act), authorizes the licensing and regulation of entities which make personal loans to consumers. The act prohibits the use of real estate as security for these loans. The act has no bonding requirement, however, licensees are required to maintain \$50,000.00 in liquid assets.

There were 51 licensees at year-end 1998, up slightly from 47 on December 31, 1997.

SALE OF CHECKS ACT

The Sale of Checks Act, Act No. 136 of the Public Acts of 1960, as amended, authorizes the licensing and regulation of the business of selling and issuing travelers checks, drafts, and money orders as a service or for a fee. The act also regulates telegraph companies which transfer funds by wire. The act requires a \$100,000.00 minimum net worth and a minimum bond of \$100,000.00 plus \$3,000.00 for each agent up to a maximum of \$250,000.00.

At the end of 1998, there were 21 sale of checks licensees, no change from year-end 1997.

SECONDARY MORTGAGE LOAN ACT

The Secondary Mortgage Loan Act, Act No. 125 of the Public Acts of 1981, as amended, authorizes the licensing, registration and regulation of entities which make secondary mortgage loans for

personal, family, or household purposes. The act also allows for loans secured by other collateral in addition to real property. Licensees must generally post a bond or letter of credit in an amount ranging from \$25,000 to \$125,000, depending on the type of services being offered.

There were 27 licensees and 404 registrants under the act as of December 31, 1998, compared to 431 licensees and 56 registrants at year-end 1997. This shift from licenses to registrations during the year was a result of amendments made to the act in 1997.

LICENSING TRENDS

The division has seen an approximate 14% increase in the total number of licensees and registrants under the Mortgage Brokers, Lenders and Servicers Licensing Act and the Secondary Mortgage Loan Act in 1998, which is in addition to a 25% increase in 1997. Continued low mortgage interest rates and the resulting volume of refinance activity have been major contributing factors to the increase in licensing activity. In addition, amendments made to the Secondary Mortgage Loan Act in 1997 continue to make secondary mortgage brokering and lending attractive opportunities for financial services companies doing business in Michigan.

STAFF TRAINING

During the year, all division staff members received training in new computer software programs implemented by the Bureau. Training sessions were offered in word processing, spread sheet applications, and presentation software. Staff members also attended various training conferences offered by the National Association of Consumer Credit Administrators, American Association of Residential Mortgage Regulators, Federal Financial Institutions Examination Council, Association of Certified Fraud Examiners,

and Department of Civil Service. Training sessions for administrative support staff and management personnel were also conducted by the Bureau during the year.

Y2K COMPLIANCE

As part of the license application process, most applicants must provide a brief description of the steps they are taking to ensure that their computer systems will be year 2000 compliant.

SURVEYS

As part of the division's continuing effort to streamline the mortgage license application process, a survey was mailed to approximately 700 recent license applicants. The survey requested that respondents provide their input concerning the ease of the application process and use of the application forms. The Anderson Economic Group, an independent consulting firm, was retained by the Bureau to accumulate and analyze the surveys. During 1999, the division will be reviewing the survey results and implementing appropriate changes to streamline and improve the license application process.

FIB WEB SITE

During 1998, the division made available on the Bureau's web site complete listings of active licensees and registrants under the Mortgage Brokers, Lenders and Servicers Licensing Act, Secondary Mortgage Loan Act, Consumer Financial Services Act, Regulatory Loan Act, and Sale of Checks Act.

Applications for licensure or registration under the Mortgage Brokers, Lenders and Servicers Licensing Act and the Secondary Mortgage Loan Act are available on the Bureau's web site. Applications for licensure under the Motor Vehicle Sales Finance Act and Regulatory Loan Act are also available on the site. Access via the Internet to

applications under the remaining acts is being planned. The Bureau's consumer complaint form is also available on the web site.

ENFORCEMENT ACTIVITIES

Various enforcement actions were taken during the year which resulted in license revocations and surrenders, as well as application denials and withdrawals. Please see the Examination Division narrative for further details.

As of December 31, 1998, the division had one enforcement action pending. An administrative hearing on this matter has been scheduled for 1999.

FIRSTPLUS FINANCIAL, INC. DBA FIRSTPLUS DIRECT

On August 19, 1998, the Commissioner issued a 'Notice of Intention to Issue an Order to Cease and Desist and Notice of Hearing' against Dallas, Texas-based FirstPlus Financial, Inc. (FirstPlus). The Notice alleged that FirstPlus had been making false, misleading and deceptive solicitations to the public on second home mortgages. The solicitations stated that consumers would be eligible for a second mortgage of a specific

amount even though the company had not verified whether or not the consumers were eligible for a second mortgage. In several instances, the consumer receiving the solicitation had no interest in the property being used as collateral for the loan. The Notice also alleged that FirstPlus was engaging in mortgage activities using a name which had not been approved by the Bureau. On March 3, 1999, the Commissioner issued a 'Consent Order' in this matter. Under terms of this settlement FirstPlus agreed that it would not use false, misleading or deceptive advertising regarding mortgage loans or the availability of mortgage loans, and that it would only conduct business using names licensed by the Bureau. FirstPlus also agreed to pay \$20,000 for investigative and administrative costs incurred by the Bureau.

COMPLAINT ACTIVITIES

During 1998, the division received 550 written complaints filed against licensees by consumers and creditors, a 70% increase over 1997. As in the past, the majority of these complaints were filed against mortgage companies. Many of these complaints involved problems with the mortgage application process. More than 30 complaints resulted from loan solicitations mailed by mortgage companies. Seventy-four of the complaints were filed against motor vehicle licensees, up 40% from 1997.

LICENSEES

AS OF DECEMBER 31

	1998	1997
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CONSUMER FINANCIAL SERVICES ACT

Number of Class I licensees	154	124
Number of Class II licensees	68	67

CREDIT CARD ACT

Number of licensees	4	2
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MORTGAGE BROKERS, LENDERS, AND SERVICERS LICENSING ACT

Number of licensees	952	715
Number of registrants	261	238

MOTOR VEHICLE SALES FINANCE ACT

Number of sales finance licensees	868	963
Number of installment seller licensees	2,165	2,214

REGULATORY LOAN ACT

Number of licensees	51	47
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SALE OF CHECKS ACT

Number of licensees	21	21
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SECONDARY MORTGAGE LOAN ACT

Number of licensees	27	431
Number of registrants*	404	56

*Shift from licensees to registrants is a result of amendments made to the act in 1997.

EXAMINATION DIVISION



Ann Gaultney,
Director

Paulette Smith,
Executive Secretary

Allan J. Huber,
Review Examiner

Robert G. Andrews,
Examination Supervisor

Michael Gomez,
Senior Examiner

Linda D. Juntunen,
Examiner

Elliott D. Purty,
Senior Examiner

Mathew R. Van Vleck,
Senior Examiner

Heidi B. White,
Senior Examiner

Mary J. Brinson,
Student Assistant

Lisa S. Thelen,
Student Assistant

STATUTORY AUTHORITY

The Examination Division is responsible for examining, investigating, and supervising over 5,000 licensees and registrants under the following consumer finance statutes:

- the Consumer Financial Services Act;
- the Credit Card Act;
- the Mortgage Brokers, Lenders, and Servicers Licensing Act;
- the Motor Vehicle Sales Finance Act;
- the Regulatory Loan Act;
- the Sale of Checks Act; and
- the Secondary Mortgage Loan Act.

The division examines and supervises non-depository licensees and registrants to ensure that they operate safely, responsibly, and in compliance with applicable law.

The division's other responsibilities include:

- initiating enforcement actions against licensees and registrants based upon the results of the examinations and investigations conducted under the statutes noted above;
- analyzing mandated filings of annual reports and financial statements by non-depository licensees and registrants; and
- assisting with numerous requests made under the Freedom of Information Act for annual reports and financial statements.

CONSUMER FINANCE STATUTES

CONSUMER FINANCIAL SERVICES ACT

The Consumer Financial Services Act, Act No. 161 of the Public Acts of 1988, as amended, provides for the licensing and regulation of institutions which provide a variety of financial services, and eliminates the need to acquire a separate license for each activity. A "Class II" license authorizes services under the Regulatory Loan Act, the Motor Vehicle Sales Finance Act, the Secondary Mortgage Loan Act, and the Credit Card Act. A "Class I" license authorizes services under the Sale of Checks Act and the Mortgage Brokers, Lenders, and Servicers Licensing Act in addition to the authorities provided under a Class II license.

CREDIT CARD ACT

The Credit Card Act, Act No. 379 of the Public Acts of 1984, as amended, authorizes the licensing and regulation of non-depository issuers of credit cards.

MORTGAGE BROKERS, LENDERS, AND SERVICERS LICENSING ACT

The Mortgage Brokers, Lenders, and Servicers Licensing Act, Act No. 173 of the Public Acts of 1987, as amended, provides for licensing, registration, and regulation of mortgage brokers, mortgage lenders, and mortgage servicers. The act pertains to loans secured by first mortgages or land contracts covering real property located in the state of Michigan, which is used, or improved to be used, as a dwelling and designed for occupancy by four or fewer families.

MOTOR VEHICLE SALES FINANCE ACT

The Motor Vehicle Sales Finance Act, Act No. 27 of the Public Acts of 1950, as amended, regulates certain installment sales of motor vehicles. It provides for licensing and regulation of both the installment sellers, who are motor vehicle dealers originating installment sales contracts, and sales finance companies, the financial institutions that purchase these contracts from the dealers.

REGULATORY LOAN ACT

The Regulatory Loan Act of 1963, Act No. 21 of the Public Acts of 1939, as amended (successor to Act No. 317 of the Public Acts of 1921, the Small Loan Act), authorizes the licensing and regulation of entities which make personal loans to consumers, other than those secured by real estate.

SALE OF CHECKS ACT

The Sale of Checks Act, Act No. 136 of the Public Acts of 1960, as amended, authorizes the licensing

and regulation of the business of selling and issuing travelers checks, drafts, and money orders as a service or for a fee. The act also regulates telegraph companies which transfer funds by wire.

SECONDARY MORTGAGE LOAN ACT

The Secondary Mortgage Loan Act, Act No. 125 of the Public Acts of 1981, as amended, authorizes the licensing, registration, and regulation of entities which broker, make, or service secondary mortgage loans used for personal, family, or household purposes.

EXAMINATION AND SUPERVISION

The division conducted examinations and/or investigations in 1998 under all consumer finance statutes listed above, except the Credit Card Act.

With an ever-increasing population of non-depository licensees and registrants to supervise, the division has implemented new methods designed to more efficiently supervise the population. In this regard, the division altered its method of conducting examinations and investigations of large, complex financial institutions. In the past, these were conducted without advance notification being given to the licensee or registrant. In 1998, the division began notifying large, complex institutions of planned examinations and requesting examination-related information in advance to more efficiently conduct the examinations. This process has resulted in examinations of these institutions being conducted both on- and off-site.

In 1998 the division conducted an increased number of off-site examinations, in an effort to more effectively supervise financial institutions which do not have a physical presence within the state and which had a limited amount of Michigan activity.

ENFORCEMENT ACTIONS

As a result of examinations and investigations conducted by the division, four enforcement actions were commenced during 1998. The status of these actions are:

- Two closed.
 - One as a result of the company surrendering its license under the Mortgage Brokers, Lenders, and Servicers Licensing Act.
 - One with the Commissioner of the Financial Institutions Bureau ordering Commercial Lending Corporation, William Rankin, and any employees or agents thereof, to immediately cease and desist from conducting business as a mortgage broker without first obtaining a license or registering under the Mortgage Brokers, Lenders, and Servicers Licensing Act.
 - Two pending.
- In process from a previous year, was one enforcement action.

The year also brought about the culmination of four enforcement actions, which had been commenced in earlier years. These actions resulted in:

- Ralph R. Roberts Real Estate, Inc. admitting violations of the Mortgage Brokers, Lenders, and Servicers Licensing Act, agreeing to pay a civil fine of \$14,525.00 and investigation costs of \$8,100.00 to the Financial Institutions Bureau, agreeing to immediately surrender its mortgage broker registration certificate, and agreeing to withdraw any and all applications previously submitted to the Financial Institutions Bureau for licensure pursuant to the Mortgage Brokers, Lenders, and Servicers Licensing Act and/or the Secondary Mortgage Loan Act.
- Absolute Acceptance Mortgage Company, L.L.C. admitting violations of the Mortgage Brokers, Lenders, and Servicers Licensing Act, agreeing to make refunds to consumers, and agreeing to pay a civil fine of \$2,000.00 and investigation costs of \$5,500.00 to the Financial Institutions Bureau.
- Benson Group Financial Corporation admitting violations of the Mortgage Brokers, Lenders, and Servicers Licensing Act, agreeing to make refunds to consumers, and agreeing to pay a civil fine of \$5,011.00 and investigation costs of \$3,600.00 to the Financial Institutions Bureau.
- The Commissioner of the Financial Institutions Bureau denying the application of Mortgage Sources, Inc. for licensure under the Mortgage Brokers, Lenders, and Servicers Licensing Act, revoking the license of Mortgage Sources, Inc. under the Secondary Mortgage Loan Act, and ordering payment to the Financial Institutions Bureau of a civil fine of \$15,000.00.

POLICY BULLETINS

The Bureau issued two Mortgage Bulletins in 1998, one on mortgage prepayment penalty restrictions and the other on rights of first refusal to provide additional financing.

Mortgage Bulletin 1998-01, issued November 6, 1998, provides the following Bureau positions on prepayment penalty restrictions:

- Section 501(a)(1) of the Depository Institutions Deregulation and Monetary Control Act of 1980 does not preempt MCL 438.31c(2)(c). As a result, lenders who make loans secured by first mortgages on residential property, except for certain alternative

mortgage transactions, are prohibited from charging Michigan consumers prepayment fees or penalties outside those allowed by MCL 438.31c(2)(c).

- The provisions of MCL 438.31c(2)(c) that limit the charging of prepayment fees and penalties are preempted by the Alternative Mortgage Parity Act of 1982, if the lender is a “housing creditor” and the extension of credit is made in compliance with the Alternative Mortgage Parity Act and other applicable regulations.

Mortgage Bulletin 1998-02, issued November 12, 1998, provides the following Bureau positions on rights of first refusal to provide additional financing:

- It is unlawful in the State of Michigan for an entity licensed or registered under the Mortgage Brokers, Lenders, and Servicers Licensing Act, Act No. 173, P.A. 1987, as amended (Act), to use a document in conducting licensable business activity that purports to grant to the licensee or registrant a “right of first refusal to provide additional financing.”
- The “right of first refusal to provide additional financing” document requires consumers to deal exclusively with a particular licensee or registrant in obtaining financial services secured by real property.
- The representation by a licensee or registrant that a “right of first refusal to provide additional financing” document is a recordable contract, is an act that deceives consumers, leading them to believe that they have entered into a valid agreement.
- A licensee or registrant that uses an exclusive business agreement will be subject to an administrative action against its license or

registration for engaging in conduct prohibited by Section 22 of the Act.

The Bulletins are available on the Bureau web site, located at www.cis.state.mi.us/fib.

OTHER COMMUNICATIONS

The division began publishing a First Mortgage Regulatory Newsletter in 1998. The purpose of the newsletter is to provide a means for informing licensees and registrants under the Mortgage Brokers, Lenders, and Servicers Licensing Act about various problems or issues which have come to our attention through examinations. In this way, licensees and registrants can learn from the mistakes of others and take appropriate action to correct any similar deficiencies noted in their operations. Some of the topics covered in the 1998 newsletters are:

- exclusive agreements;
- back-dating of documents;
- advertising;
- individual investors;
- escrow account surpluses;
- replies to examination reports;
- obtaining federal regulations;
- net worth requirements;
- policies and procedures manuals;
- assignment of mortgages; and
- preparedness for the year 2000.

Positive feedback has been received by the division in response to the two newsletters issued in 1998. Accordingly, the division plans to continue the use of the Newsletter. Copies of the newsletters may be obtained from the Bureau’s web site, located at www.cis.state.mi.us/fib.

Y2K COMPLIANCE MONITORING

The division monitors its licensees and registrants for compliance with the year 2000 computer problem through information obtained through annual report filings and through the examination process.

STAFF TRAINING

The division is committed to maintaining a highly competent examination and office staff. One of the ways the division accomplishes this is through appropriate staff training. In 1998, the examination staff attended training in areas such as mortgage fraud, federal regulations, testifying, and management skills.

PROFESSIONAL ORGANIZATIONS

Division personnel take an active role in the regulatory community. At the Michigan Automobile Dealer Association's annual conference, Robert Andrews spoke about spot delivery. (Spot delivery occurs when a motor vehicle is delivered to the consumer prior to obtaining formal loan approval by the financing institution.) Ann Gaultney is involved in the National Association of Consumer Credit Administrators (NACCA). In 1998, she held the position of Second Vice President of NACCA and was responsible for organizing the annual conference held in San Diego, California.

THE MORTGAGE INDUSTRY IN REVIEW

The sub-prime mortgage industry, as well as entities making high loan-to-value mortgage loans, braved rough seas in 1998. Some of these lenders encountered difficulty obtaining funding for mortgage loans due to reductions or freezes in warehouse lines of credit, resulting in the failure of certain financial institutions.

However, not all was bad in 1998. While certain lenders may have faced difficulties, others flourished. As a matter of fact, the number of entities licensed or registered with the Bureau to make mortgage loans has never been higher.

INFORMATION AVAILABLE ON THE FIB WEB SITE

A wealth of information is available on the Bureau's web site, located at www.cis.state.mi.us/fib. Such information includes:

- copies of the consumer finance statutes;
- answers to frequently asked questions;
- policy bulletins;
- newsletters issued by the division;
- press releases; and
- forms for filing 1998 annual reports and financial statements.

ADMINISTRATION



Philip F. Rooney,
Director

The director of Administration and staff provide support to all Bureau employees in the areas of human resources/labor relations and training, budget development and financial management, microcomputer systems and support, physical facilities, and various office management activities.

Support services are provided at a minimum cost by consolidating services and reducing duplication. This enables other division managers to utilize their respective resources more effectively to meet program goals and objectives.

MICROCOMPUTER OPERATIONS

Microcomputer Operations has responsibility for installing and maintaining the Bureau's computer hardware and software, network systems, and for coordinating computer-related training.

ROLE AND GOALS

Microcomputer Operations was established in 1985 to provide the Financial Institutions Bureau with the support staff and technical assistance required to advance use of microcomputers within the Bureau. Their goals were to:

- Achieve office automation and the automation of administrative tasks through the use of microcomputers and software applications;
- Improve the efficiency and effectiveness of financial institution examinations through the use of microcomputers in the areas of financial modeling and projection, pre-examination analysis, off-site surveillance, and other uses of software applications; and
- Develop and maintain permanent internal data processing support resources.

Microcomputer Operation's objective was to develop and maintain a technology plan for conducting ongoing research, development and deployment of microcomputers to automate the Bureau's activities wherever possible.

- To obtain and maintain sufficient microcomputer equipment and related technological resources to achieve the goals of the program; and
- To conduct ongoing research and development of software internally and through joint efforts with other state and federal regulatory agencies.

ACCOMPLISHMENTS

During the past year, activities included completion of a two-year plan to upgrade/replace all Bureau computers and related operating system software in a move to the Windows 95 operating system. The Bureau Intranet, Webster, was greatly expanded and continues to serve as the master source of information for the Bureau. Also completed was the installation and training coordination effort for migration to the MS-Office Professional 97 Suite of application software.

On the hardware side of things, Microcomputer Operations coordinated the purchase and installation of a CD duplication system and companion CD-RW drives for the mastering of CD originals. The system has been used to duplicate the Bureau's Internet and Intranet sites for ease of use by FIB field staff, without the need to dial in to an Internet service or log in to Bureau servers.

New laptop computers were issued to all Bank and Trust Division field staff, making it easier for them to utilize their automated report of examination applications.

YEAR 2000

Microcomputer Operations plans to test Bureau microcomputers for Year 2000 date-handling ability during the first quarter of 1999. All internally-developed mission-critical software applications will have been remediated by the end of the first quarter of 1999.

MANAGEMENT SERVICES

Management Services was created in 1997 by consolidating several support services into one organizational unit. Responsibilities include: the human resource management and training program; policy and procedure development and

implementation; administration and oversight of the Performance Planning Review and Development Program (PPRDP); financial management including coordinating development of the Bureau budget; Bureau record retention and disposal schedule; Bureau microfilm operations; and various other special projects and support activities.

CURRENT ACTIVITIES

Accomplishments and activities in 1998 included: Conducting training sessions focused on current needs for Bureau employees; implementation of the Bureau's PPRDP, a new performance appraisal program; and preparing internal microcomputer systems for Year 2000 compliance.

In addition, Management Services employees led two Bureau task forces:

- A continuing digital imaging group which is researching information management and future record keeping systems, including the integration of digital imaging; and
- A telecommunications group, which is studying and proposing realignment of the Bureau's telecommunications system to better use employee resources.

YEAR 2000

In anticipation of the Year 2000, Management Services is working to identify and make necessary modifications to the Bureau's security system, revenue system, the personnel payroll system, and the Personnel Profile System so they are all Year 2000 compliant. We expect to complete modifications by March 1999.

TRAINING

Management Services employees attended a variety of classes and seminars during 1998. A sampling of those sessions is:

- Classes offered by outside vendors such as How to Deliver Exceptional Customer Service, Project Management, Grammar and Usage, How to Become a Great Communicator;
- Clemson University's one-day Conference on Professional Development for Women;
- Michigan Department of Civil Service classes on Professional Telephone Performance and Emergency Techniques; and
- Administrative support and labor and trades employees attended the Bureau's Administrative Support Group Committee's annual seminar on Finding Balance in an Unbalanced World.

BUREAU REVENUE AND EXPENSES

The Bureau's expenses are funded entirely from restricted revenue. This revenue is generated from fees assessed financial industries regulated by the Bureau for supervision, examinations and investigations, fines, corporate transactions, applications and license renewals. Expenses include employee payroll, travel costs, supplies, communications, rent, computer network and contractual services. The Bureau is also assessed overhead charges for building rent and for services provided to it by the departments of Consumer and Industry Services and Civil Service.

ADMINISTRATION

Philip F. Rooney,
Director

Julia A. Kennicott,
Executive Secretary

MICROCOMPUTER OPERATIONS

Leigh A. Scherzer,
Acting Assistant Director

Robert R. Bowes,
Programming Specialist

Peter D. McFarlane,
Student Assistant

Daphne C. Raborn,
Student Assistant

Donald R. Ward,
Computer Specialist

Paul C. Wei,
Programming Specialist

MANAGEMENT SERVICES

Sonya W. Dungey,
Assistant Director

Danielle R. Powers,
Human Resource Assistant

Kelly J. Anderson,
Financial Assistant

Judie C. Bennett,
Project Coordinator

David P. McCallie,
Mail Coordinator

Mina M. Malcolm,
Microfilm Operator

Stanley S. Pollitt,
Revenue Coordinator

Kathleen A. Simon,
Financial Specialist

Jennifer A. Taylor,
Student Assistant

Ricky K. Withers,
Student Assistant

REVENUE BY SOURCE

Program	FY98	FY97	FY96
Bank	\$ 6,238,401	\$ 6,336,095	\$ 6,561,420
Credit Union	3,871,524	3,765,005	3,625,644
BIDCO	98,055	46,522	103,988
Credit Card	3,950	1,100	4,325
Sale of Check	15,500	13,600	12,400
First Mortgage	1,245,839	1,049,681	888,265
Motor Vehicle	134,485	140,266	179,640
Omnibus	161,731	291,643	275,501
Secondary Mortgage	186,052	337,025	364,676
Regulatory Loan	32,390	26,150	42,771
Total Restricted Revenue	\$11,987,927	\$12,007,087	\$12,058,630

EXPENSE BY PROGRAM

Program	FY98	FY97	FY96
Commissioner	\$ 83,404	\$ 100,700	\$ 86,082
Administration	1,156,522	1,229,569	1,184,151
Bank	4,378,728	4,980,898	4,863,972
Credit Union	2,936,714	3,029,397	2,885,285
Corporate Regulatory Services	509,938	644,477	674,132
Consumer Protection	1,536,497	1,496,562	1,252,340
Research and Consumer Services	333,851	323,050	270,668
Total Expense	\$10,935,654	\$11,804,653	\$11,216,630

This report is published pursuant to Section 20 of the Banking Code of 1969 (1969 Public Act No. 319, as amended). Sec. 20. For each calendar year the commissioner shall compile and publish an annual report in such form and containing such information as the commissioner may determine necessary to reasonably summarize the operations of the bureau during such year.

*3,000 annual reports were printed at a total cost of \$5,454.75 and a unit cost of \$1.82.
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Request for copies of this publication should be directed to:

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